

Freight markets can survive US sanctions

Donald Trump's attempt to end the 2015 international nuclear deal with Iran has taken a long time and shipping companies face heightened sanction risks, however freight markets may not be affected very much.

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Washington's unilateral withdrawal from JCPOA creates uncertainty and legal risks for maritime players



SHIPOWNERS WILL FACE MORE SANCTIONS RISKS BECAUSE OF TRUMP'S UNILATERAL MOVE.

Source: Shutterstock

WITH the usual elaborate stroke of his pen (and a few characters on Twitter), US president Donald Trump has unilaterally taken his country out of the 2015 multinational agreement with Iran.

It means the legal risks for shipping companies involved in trade with Iran have increased, although the freight market should have sufficient time to adjust.

For someone known for being unpredictable, Mr Trump has apparently made efforts into managing expectation.

Having declined to recertify the Joint Comprehensive Plan of Action, he only extended waivers on sanctions in January at the last minute. During the past four months, he has continued to hint that he believes Iran is in violation of the deal.

Although his decision to terminate the US' participation was expected, many in shipping will scramble to deal with the emerging sanction risks.

Washington is preparing to re-impose sanctions on the energy, petrochemical and financial sectors, but shipping and shipbuilding are not immune.

The Department of Treasury has named Islamic Republic of Iran Shipping Lines, South Shipping Line Iran and National Iranian Tanker Co as some of the sanctioned firms.

There will be grace periods of between 90 and 180 days for the companies and banks doing business with Iran.

Sanctions on the maritime, energy and insurance sectors will become effective from November 4, as will those on the central bank and some financial institutions in Iran. Those firms involved in foreign exchange and supplying aluminium, steel and coal to Iran will be effective from August 6.

It means many companies may need to wind down their Iran-related business quickly.

The sanctions being re-imposed are secondary, covering foreign entities that do business with US firms and institutions.

Before 2015, the Obama administration was often generous handing out waivers — but judged from his actions since taking office, Mr Trump may take a different approach.

Washington is seeking to force Teheran back to the negotiation table for a new deal while choking off Iran's economy, which has rebounded strongly since 2015. However, Germany, France, the UK and the European Union have vowed to stay in the JCPOA. Russia and China, another two signatories of the deal, are expected to side with Iran.

This points to looming uncertainty about shipping companies' operations in Iran — it remains difficult to gauge the future development of JCPOA. Iran is likely to face difficulty in developing long-term projects, as most foreign firms will probably only make ad hoc decisions.

From the market perspective, near-term risks could be relatively limited, though. Iran is not a major player in container and dry bulk trade. Its seaborne exports of chemicals and liquefied petroleum gas are rising, but are not yet significant.

Much of the focus will be on tanker trades because Iran is the third-largest producer within the Organisation of Petroleum Exporting Countries. Iranian crude production has risen from 1m barrels per day in 2015 to 3.8m bpd in February, according to Opec secondary sources. Data from Lloyd's List



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Intelligence showed the country's exports amounted to 2.5m bpd in April, mostly on suezmaxes and very large crude carriers to Asia and Europe.

Many of the Iranian crude buyers are likely to reduce intake because they do not want to be targeted by US sanctions. However, the impact in the coming months may not be too large: Arctic Securities expects a reduction of 300,000 to 500,000 bpd by the fourth quarter.

This drop can easily be replaced by barrels from the US and Saudi Arabia, which have spare export capacity, supporting overall tonne miles. In addition, if NITC is returning some of its VLCCs to floating storage, there could be upwards pressure on freight rates with reduced supply of vessels.

For the long run, Iran's oil exports may not fall significantly unless Brussels and London (where the International Group of Protection and Indemnity Clubs is based) support Washington.

The EU's oil embargo and ban on P&I cover for vessels trading with Iran were two of the main reasons behind the fall of Iranian oil exports from 2.5m bpd in 2011 to 1.1m bpd in 2013.

Barring that, it is likely there will be tanker owners willing to carry Iranian crude with risk premiums.