

Sanctions during Covid-19: ongoing risks for the shipping community

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Daniel Pilarski, a Partner In New York with international law firm Watson Farley & Williams, has noted that in March 2020 the US State and Treasury Departments announced sanctions against various Chinese companies for trading in Iranian petrochemicals.

Among the targets were ship management company Aoxing Ship Management Shanghai Ltd and shipowner Sea Charming Shipping Company Limited. News reports claimed that both companies were owned by Chinese chemical tanker company Junzheng Shipping, which purchased the fleet of petrochemical conglomerate Sinochem in 2019, although the precise ownership of the companies remained somewhat obscure.

As a result of the sanctions, US persons generally are prohibited from dealing with these companies and their subsidiaries.

Meanwhile, the Trump administration has charged disputed Venezuelan president Nicolás Maduro with criminal drug trafficking and called for him to step aside for new elections, indicating that sanctions on Venezuela would not be relaxed until he steps down.

This followed the designation of TNK Trading International SA and Rosneft Trading SA, two subsidiaries of Russian oil company Rosneft, for dealing with Venezuela. Following the designation, Rosneft announced that it was cutting all ties with Venezuela.

As with the sanctioning of the Chinese companies for trading with Iran, the sanctioning of the two Rosneft companies means that US persons generally cannot deal with them or their subsidiaries. Furthermore, non-US persons dealing with them might be at risk.

The sanctions do not attach to Rosneft parent, which is subject to more limited sanctions.

Pilarski said that there was nothing unusual in the sanctioning of the Chinese and Russian companies and continued actions against Iran and Venezuela. They are part of the Trump administration's "maximum pressure" sanctions campaign, designed to impede the Iranian and Venezuelan economies by preventing both US and non-US persons from dealing with their largest economic sectors, leading ultimately to regime change.

As with the sanctioning of COSCO Dalian in September, the sanctioning of the Chinese and Russian companies meant that it was not enough for ships merely to avoid sanctioned destinations. Shipping companies and related parties (including lenders, lessors and managers) must check whether their counterparties are also subject to sanctions.

Pilarski said that the best self-help available for the worldwide shipping community would be to adopt and maintain a sanctions compliance policy and follow the policy. He noted that, in a world of uncertainty, mistakes happened. But a sanctions compliance policy did two things:

- it minimized the likelihood of dealing with sanctioned companies and individuals,
- it demonstrated to OFAC and other authorities a good-faith attempt to comply, which went a long way in mitigating penalties.

Pilarski observed that OFAC had made clear that it viewed the shipping community as a cornerstone of its sanctions policy. It had aggressively targeted violators within the

shipping community. “At this point, it is advisable for everyone in the shipping community to adopt, maintain and comply with an effective compliance policy”, he wrote.