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**UPDATE: Qatar Diplomatic Crisis - The continuing impact**

**The political and economic boycott of Qatar, which began on 5 June 2017 when Saudi Arabia, the United Arab Emirates, Bahrain and Egypt cut diplomatic ties with Qatar and moved to close off access to the Gulf country, continue to have a significant impact on international trade in the Middle East.**

Since our [previous alerts on 7 June 2017](#) and [12 June 2017](#) the following developments have occurred:

1. Saudi Arabia, the UAE, Bahrain and Egypt issued a **13-point list of demands** to Qatar on 22 June, which included curbing diplomatic ties with Iran, severing all ties with "terrorist organisations", closing the Al Jazeera television network, terminating the joint military cooperation with Turkey, aligning itself with other Gulf and Arab countries' policies, and consenting to audits and annual compliance monitoring. The demands were delivered to Kuwait, which was acting as mediator of the crisis, and Qatar was given 10 days to comply. On 2 July, the boycotting countries agreed to extend the deadline by two days at the request of Kuwait.
2. On 3 July, **Qatar** responded to the demands but no specific details were publicly released. The Qatari foreign minister said that the demands were not aimed at tackling terrorism but at curtailing Qatar's sovereignty, and were impossible to meet.
3. On 5 July, the foreign ministers of Saudi Arabia, the UAE, Bahrain and Egypt met in Cairo to consider Qatar's response and discuss **the future of the crisis**. They subsequently issued a joint statement condemning Qatar's negative response and confirming that the political and economic boycott would continue. The Saudi foreign minister said that further steps against Qatar will be taken at an appropriate time and will be in line with international law. Further consultations will be held in Bahrain at a later date.
4. **Finance:** Approaching the 2 July deadline, **Qatar's stock market** sank as much as 3.1 percent, bringing its total losses to 11.9 percent since 5 June. The Qatari Riyal exchange rate against the US dollar has been severely affected as the Qatar Central Bank pegged the Qatari Riyal at 3.64 as of 5 July. Qatar has also withdrawn 60 billion Qatari Riyals (US\$16 billion) from its deposits and borrowed 10 billion Qatari Riyals (US\$2.65 billion). On 30 June, it was reported in the press that several British banks announced that they stopped trading the Qatari Riyals.
5. **Business:** There are currently no publicly released restrictions on investment as between Qatar and the boycotting countries. In Saudi, the Saudi Ministry of Commerce and Investment recently gave its verbal instructions to government agencies to pause all applications for the issuance of commercial licenses and company registrations as well as other administrative actions that involve Qatari nationals.
6. **Updated Terrorist Watch Lists:** Saudi Arabia, Bahrain, the UAE and Egypt updated their terrorist watch lists by identifying the names of 59 individuals and 12 organizations that are deemed to be engaged in acts of terrorism or activities supporting terrorism. In the absence of any official instructions or guidelines it is unclear what specific actions will be taken against those persons who appear on the list (or any party that has any financial, commercial or other type of connection with such persons).
7. **Shipping:** Since Saudi Arabia, the UAE, Bahrain and Egypt (to a more limited extent - see below) banned all Qatari flag vessels or vessels owned by Qatari companies or individuals or carrying goods of Qatari origin from passing through their ports, shipping lines appear to have put in place alternative arrangements where the product is discharged first to a third party country (such as Oman) before onward shipment to Qatar. Shipments from the United States or European Union to Qatar are not prohibited.
8. **Oil and gas:** State-run Qatar Petroleum announced its plans to increase gas production from its giant North Field by 20 percent amid the diplomatic crisis. It is the world's biggest gas field which the country shares with Iran.

**Shipping**

**1. What is the extent of the restrictions imposed on the vessel movements from the boycotting countries to Qatar and vice-versa? How do the authorities monitor the movement of vessels?**

**UAE**

Since the implementation of the Qatar boycott, port authorities in the UAE have issued circulars announcing the extent of the restrictions imposed on vessels and cargoes destined for or arriving from Qatar. These circulars introduced a level of ambiguity surrounding the exact scope of the restrictions and the implementation.

However, on 11 June 2017, the Federal Transport Authority - Land & Maritime ("FTA") issued Circular No. 2/2/1023 to clarify and confirm the scope of the restrictions. The FTA circular instructed all port authorities in the UAE to consistently implement the restrictions as follows:

UAE ports are restricted from:

- (i) receiving any Qatari flag vessels or vessels owned by Qatari companies or Qatari individuals;
- (ii) loading or unloading any cargo of Qatari origin in any port or waters of the UAE; or
- (iii) allowing vessels (regardless of their flag or ownership) to load any cargo of UAE origin destined for Qatar. Cargo of UAE origin encompasses any products loaded at a UAE port, i.e. not necessarily products affecting the UAE as the country of origin in the certificate of origin).

In each port, the harbour master verifies the route of the vessels (i.e., origin and destination). Each vessel must obtain an "inward clearance", or "outward clearance", prior to entering or exiting any port, identifying the ports of destination and departure. The harbour master will not issue the relevant clearance if the vessel or cargo violates any of the boycott restrictions.

**SAUDI ARABIA**

The General Organization of Saudi Sea Ports Authority has announced to all shipping agents that Saudi ports will not receive any vessels hosting the Qatari flag or owned by Qatari companies or individuals or unload any goods of Qatari origin. Based on this, we understand that cargo loaded from Qatar is permitted to transit through Saudi ports for co-loading, but no cargo of Qatari origin will be permitted to be loaded or off-loaded at any Saudi port.

**EGYPT**

The Egyptian government has banned all Qatari flag vessels from passing through Egyptian ports. We understand that the Egyptian authorities are not prohibiting the import of goods of Qatari origin, provided they are shipped on vessels other than Qatari flag vessels. However, vessels (whether or not Qatari flagged) are not prevented from passing through the Suez Canal. Under the Convention of Constantinople 188, the Suez Canal is considered international waters and Egypt may only impose restrictions on countries that are at war with Egypt.

**2. Would indirect shipping of goods from the UAE or Saudi Arabia to a non-boycotting country and onward to Qatar be problematic, from a boycotting country perspective?**

There is no express prohibition on indirect shipping of goods from boycotting countries through non-boycotting countries. In practice, companies have faced issues with customs when attempting to route goods through a non-embargoing country in circumstances where the documentation states that the final destination is Qatar.

However, from a Qatari perspective, indirect shipping may be problematic. Please see response to Question 3 below.

**3. Is there any Qatari prohibition on importing goods originating in the UAE or other boycott countries, directly or indirectly?**

According to Qatari Chamber of Commerce, Qatar will not allow entry of products originating from the UAE, Saudi Arabia and Bahrain. For this purpose, "originating" means manufactured or assembled in the relevant country (typically evidenced by a certificate of origin). We have no information to date about the extent to which this ban has been implemented in practice.

However, our understanding is that this ban applies to direct and indirect shipments through non-embargoing third countries. From the Qatar perspective, at the present time, imports of goods that do not originate in boycott countries, but are merely loaded there (or are delivered from boycott countries) are not being refused entry. However, some delays may occur due to queries that might be raised by the Qatari customs officials to confirm that the products are not of UAE, Saudi or Bahraini origin.

**4. Can we use a UAE third party logistics company to assist with the supply of products to our Qatari customers and can we continue to use a UAE third party agent servicing port calls to many ports including Qatar?**

To date, there are no comprehensive restrictions on doing business with Qatar (akin, for example, to the US, there are no embargo against Iran), and this would include the supply of products to Qatari customers. This assumes, of course, that the prohibitions set out in the FTA Circular (see response to Question 1 above) are fully observed by the UAE third party logistics company or the UAE third party agent.

**Doing Business**

**5. Can we continue to do business with our Qatari customers? If yes, can our employees who are citizens of the boycotting countries continue to support our business with Qatar?**

There are currently no announced restrictions on investment as between Qatar and the countries imposing the blockade. The boycott does not legally prevent companies headquartered in the countries that cut ties with Qatar from continuing to do business with Qatari public or private companies and honor their ongoing contractual obligations.

In Saudi Arabia, the Ministry of Commerce and Investment recently gave its officials verbal instructions to pause all applications that involve Qatari nationals.

Personnel based in a boycotting country may continue to support Qatari customers provided that the underlying transactions are lawful under local law and in line with the boycott framework. However, given the political sensitivities, employees who are citizens of the boycotting countries may have concerns if they are directly involved in doing business with Qatar. We are aware that a number of companies headquartered in the boycotting countries are considering temporarily removing their national employees from business dealings with Qatar, in a manner compliant with local employment laws.

**6. Can we refuse to supply goods and/or services to mitigate the risks associated with the boycott restrictions?**

There are currently no announced restrictions on supplying goods or services between Qatar and the countries imposing the boycott. However, refusing to supply goods and/or services to Qatari companies or individuals is discretionary, subject to considering any resulting contractual exposure.

**7. Will the current boycott have an impact on the ability of our Qatari customers to pay an entity headquartered in a boycotting country? How can we mitigate the risks associated with a potential disruption of payment?**

The extent to which financial transactions may be affected in each boycotting country is at this point is unclear.

The UAE Central Bank issued guidelines to local banks to freeze accounts, deposits, and investments of designated terrorists and terror groups, and increased "know your customer" requirements for dealing with certain Qatar based banks (Qatar Islamic Bank, Qatar International Islamic Bank, Barwa Bank, Masraf Al Rayan, Qatar National Bank and Doha Bank). Beyond such measures, there is no significant regulatory impact on payment flows, although there is some risk that funds flows could be scrutinized more closely and hence the possibility of a delays in the payment process. Bahrain has taken similar measures.

While a Saudi newspaper has reported that the Saudi Arabian Monetary Agency ("SAMA") instructed all financial institutions in Saudi Arabia to stop dealing with Qatari banks and not to increase exposure to any Qatari clients, other reports state that money transfers between bank accounts in Saudi Arabia and Qatar will not be affected. SAMA has declined to comment on the press reports or provide any further information.

The Central Bank of Egypt issued a press release confirming that the Qatari Riyal is an official currency used in Egypt and that there are no restrictions on dealing in Qatari Riyals. Banking transactions in Egypt would only be suspended in relation to those transactions involving individuals or entities designated as supporting terrorism.

Some British banks announced on 30 June 2017, that they stopped trading Qatari Riyals.

Also on the practical side, we have received reports that Saudi and Emirati banks have been told not to deal with Qatari banks in Qatari Riyals. We have not yet received any reports from clients regarding difficulties in obtaining or making payments, nor have any of the central banks commented on this subject. But this could (possibly) have the potential to cause difficulties in financial transactions between Saudi, Emirati and Qatari parties.

If payments are disrupted, it may be beneficial to denominate a payment currency other than Qatari Riyals and to direct payment to a non-Qatari bank. The relevant authorities have been unwilling to provide views on such risk mitigation techniques.

**8. What is the impact of current restrictions on the performance of existing agreements or the entry into new agreements by companies headquartered in a boycotting country with a Qatari based business?**

There are currently no announced restrictions on entering into new agreements with Qatari based customers or continuing to perform existing agreements. Also, we have not seen current agreements being legally challenged in the UAE, for example, as to validity or any attempt to apply penalties for ongoing performance under such agreements, nor are we aware of any current legal basis for doing so.

Naturally, there are practical considerations. These include the fact that the import and export of goods may take longer and have an impact on delivery schedules and contractual performance, the cost of delivering goods will likely increase, face-to-face meetings will be difficult to arrange in practice due to the disruption in flight schedules, parties can expect extended processing times of operations or notarization of documents, there may well be increased cost of insurance, and parties will begin revisiting termination and suspension of performance rights in contracts.

In addition to the restrictions outlined above, the UAE, Saudi Arabia and Bahrain have all stated that "expressions of sympathy" towards Qatar or against the moves by these nations will be punished.

Any public statements or press releases relating to new business opportunities or newly awarded contracts in Qatar should be carefully considered.

**9. Are the boycotting countries imposing any sanctions on vessels or companies breaching the boycott restrictions? Is there a "blacklist"?**

We are not aware of the existence of sanctions or a blacklist as a result of the violation of the Qatar boycott.


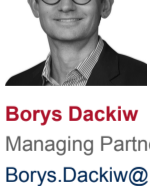








The situation continues to develop rapidly and the full ramifications of the steps taken so far are not yet known as many of the relevant enactments have not yet been made publicly available. We will continue to monitor developments and provide updates from time to time.

In the meantime, please feel free to join us in a free [webinar on Wednesday 19 July 2017](#) discussing the impact of the Qatar diplomatic crisis to date and how businesses can best adapt going forward.

*This client alert is not meant to constitute legal advice, and as the situation is constantly evolving, specific advice should be sought from relevant professionals. Should you have any queries, please contact one of our lawyers below.*

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**Contact us**

 <b>Dr. Habib Al Mulla</b> Chairman, UAE Habib.Almulla@bakermckenzie.com	 <b>Borys Dackiw</b> Managing Director, UAE Borys.Dackiw@bakermckenzie.com	 <b>Ian Siddell</b> Partner, Bahrain/Qatar Ian.Siddell@bakermckenzie.com	 <b>George Sayen</b> Partner, Saudi Arabia George.Sayen@bakermckenzie.com
 <b>Nick Roberts</b> Senior Associate, Qatar Nick.Roberts@bakermckenzie.com	 <b>Joanna Matthews-Taylor</b> Senior Associate, UAE Joanna.Matthews-Taylor@bakermckenzie.com	 <b>Hani Naja</b> Senior Associate, UAE Hani.Naja@bakermckenzie.com	 <b>Laya Aou Hani</b> Senior Associate, UAE Laya.Aoun@bakermckenzie.com
 <b>Ghada El Ehwany</b> Knowledge Manager, UAE Ghada.ElEhwany@bakermckenzie.com	 <b>Ziad Gadalla</b> Senior Associate, Egypt Ziad.Gadalla@bakermckenzie.com		

