



OFAC Issues Limited General License for Cosco Shipping Tanker Units

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On October 24, 2019, the United States Department of the Treasury's Office of Foreign Assets Control (OFAC) issued General License K in connection with the U.S. sanctions on Iran, authorizing transactions and activities that are ordinarily incident and necessary to the maintenance or wind-down of transactions involving Cosco Shipping Tanker (Dalian) Co., Ltd (Cosco Dalian Tanker), through to 12:01 a.m. EST December 20, 2019. In its notice of the General License K, OFAC expressly noted that the License did not apply to any transactions or activities with Cosco Shipping Tanker (Dalian) Seaman and Ship Management Co., Ltd, or any of its affiliates that are owned 50% or more by it.

Both companies, along with several other Chinese entities, had been added to OFAC's "Specially Designated Nationals" (SDN) List of sanctioned entities on September 25, 2019, for knowingly transporting Iranian oil in violation of the sanctions set out in the provisions of Executive Order 13846 of August 6, 2018. Although the designations did not include specific vessels, Cosco Dalian Tanker is the registered owner and/or operator of twenty-two tank vessels, most of which are crude oil carriers. Further transactions with the ships could result in sanctions against the specific vessels involved, but more significantly, could lead to so-called "secondary sanctions" against those who contract with the sanctioned entities for the use of vessels. Such secondary sanctions can include enforcement actions against U.S.-related entities, and designation as a SDN against entities with no other U.S. connection.

The September 25th announcement of the SDN designations made clear that the designations did not include the parent entity Cosco Shipping Corporation Limited or its other subsidiaries and affiliates. Nevertheless, on September 26, 2019, trading in the shares of Cosco Shipping Energy Transportation Co. Ltd, a Cosco company dually-listed in Hong Kong (1138.HKSE) and Shanghai (600026.SSE) (Cosco Listco) which owns Cosco Dalian Tanker, was suspended pending release of announcements regarding the sanctions. The last closing prices, prior to the trading suspensions, were HKD 4.40 and RMB 7.47. On resumption of trading, share prices of Cosco Listco dropped 21.14% in Hong Kong and 10% in Shanghai in one trading day.

The issuance of General License K has not appeared to restore the share prices of Cosco Listco to their pre-sanction levels. The last closing prices of Cosco Listco was HKD 3.45 and RMB 5.88, representing a drop of 21.59% and 21.29% respectively in Hong Kong and Shanghai in comparison to its pre-sanction share prices.

Commercial and shipping interests who may be involved in activities with Cosco would be well-advised to seek

guidance to review their contractual arrangements to ensure compliance with both contractual undertakings and OFAC sanctions. While the sanctions designation likely encouraged a prompt disengagement, General License K allows a brief window for a more orderly winding down of transactions.

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