

### **Trade Sanction:**

*"One or more trade barriers that a country places upon another country as a punitive action"*

Some might say that in these modern times of globalization and relative enlightenment that major conflicts can be avoided through diplomacy and the use of a unified form of sanction against rogue or wayward States.

With the development of the United Nations (UN) in the aftermath of World War Two, a collective body exists to debate, decide and implement trade sanction recommendations to member countries in an attempt to maintain global discipline and influence. Individual countries must, in turn, introduce local legislation and/or regulation to enforce any sanction through their domestic legal system.

For quite a number of years, Iran has been at odds with much of the UN community with the principal point of contention being the Iranian pursuit of a nuclear weapons capability.

UN sanctions already exist against Iran however, in June this year (2010) the UN Security Council adopted 'Resolution 1929' imposing additional sanctions against Iran which, substantially strengthen the existing measures. Financial sector restrictions, including the provision of insurance have been included.

UN member countries, including Australia, have begun the legislative process to implement strengthened measures, and in some cases sanctions over and above those recommended by the UN.

### **Impact on Marine Insurance**

The nature of international trade and the corresponding marine insurance covers can create difficulties in relation to sanction compliance, including:

- Annual insurance contracts for Hull risk may lead to a vessel inadvertently breaching a geographic or trade limitation unless the policy is appropriately restricted. Exclusion



clauses have been developed although this is unlikely to be an area with much impact on Australian Insurers or Insureds.

- Cargo insurance contracts can often be traded enroute and when this is combined with a wide geographic scope of cover, the potential exists for sanction breach – known or inadvertent.
- Restrictions do not apply to all goods and services. Individual country legislation will differ as will the emphasis or listing of prohibited items.
- Definitions of prohibited items may be confusing and/or have broad application.

Additionally, reinsurers and reinsurance contracts may be particularly vulnerable to an unknown sanction breach and we expect this segment of our industry will move to enforce exclusion or restriction clauses to marine reinsurance contracts.

Insured parties with trade and finance connections to Iran will come under increased scrutiny as sanctions' legislation enacts and, there is the likelihood for cover restrictions to follow.

Contact us if you would like additional information.

### **The Team at Vero Marine**

[http://www.dfat.gov.au/un/unsc\\_sanctions/iran.html](http://www.dfat.gov.au/un/unsc_sanctions/iran.html)