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Sanctions Do Not Extinguish Payment Obligations under Charterparties : GTLK Malta Four v Pola Maritime

—A Case Note on [2026] EWHC 2514 (Comm), with Observations on the UK and Japanese Vessel Designations of October 2026

I. Factual Background

GTLK Malta Four, a Maltese company (the "Owners"), is an indirect subsidiary of GTLK, a Russian state-owned leasing company. It let seven vessels to Pola Logistics, a Cypriot company, under bareboat charterparties on amended BARECON 2001 forms by way of financing. The charterparties had ten-year terms, provided for quarterly hire payments and stipulated that title would transfer upon expiry. In substance, they constituted sale-and-leaseback financing arrangements. Pola Maritime and three other affiliates provided joint and several guarantees of the charterparty obligations and undertook to make payment "as if they were the principal obligors". Even if the underlying obligations became unenforceable, invalid or illegal, the guarantors remained independently liable to indemnify the Owners and generally waived all defences that might reduce or discharge their liability.

In April 2022, GTLK and the Owners were designated successively by the European Union and the United Kingdom; in August of the same year, they were added to the US Specially Designated Nationals and Blocked Persons List (the "SDN List"). Because the charterparties required payment in US dollars, and dollar clearing had to pass through US intermediary banks, payment was impeded. Pola Logistics promptly ceased paying hire and, alleging interference with its quiet enjoyment, contended that the Owners had committed a repudiatory breach and that the charterparties had been frustrated. The Owners' P&I insurer, Shipowners' Club, also automatically terminated cover on the date of designation. In February 2024, the Owners terminated the charterparties for non-payment and claimed approximately US$42 million under the guarantees.

II. The Court's Decision

On 2 October 2026, the English Commercial Court granted summary judgment for the Owners. Its reasoning was as follows.

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1. the effect of sanctions on the payment obligations was merely "suspensory"; it did not extinguish those obligations. Applying the Ralli Brothers principle as developed in *Banco San Juan [2020] EWHC 2937 (Comm) and Celestial Aviation [2024] 1 Lloyd's Rep 215*, the payment obligations were suspended only to the extent that performance was illegal under the law of the place of performance. The contracts were not thereby discharged.

2. the Court applied the "wait and see" principle. Whether a contract has been frustrated by delay must be assessed as at the time when the parties are confronted with that delay, by objectively weighing both accrued and prospective delay and allowing events to unfold. At the time of designation, between five and eight years remained under the ten-year charterparties. The parties were not entitled to assume that the sanctions would continue indefinitely.

3. the charterparties had already allocated the sanctions risk, leaving no room for the doctrine of frustration. Clause 38.10 was a "hell or high water" clause. It expressly provided that the charterers' payment obligations were "absolute" and would not be reduced or discharged by reason of any inability to use the vessels, any non-performance by either party, insolvency proceedings, or the invalidity or unenforceability of the charterparties. The broad definition of "Sanctions and Export Controls" further demonstrated that sanctions were a contingency foreseen at the time of contracting. Nor did the quiet enjoyment provision in clause 42 conflict with the allocation of risk under clause 38.10. Since the contracts had made express provision for the relevant circumstances, the principle in *The Kyla [2012] EWHC 3522 (Comm)* applied, and there was no scope for frustration.

4. a compliant alternative route for performance was available. OFSI issued a general licence in August 2023, and OFAC issued a specific licence in September 2023, subsequently extending it twice. These licences permitted payments under pre-designation contracts to be made lawfully into frozen accounts. Paragraph 63.4 of the judgment described the effect of the OFAC licence as rendering the suspended payment obligations "un-suspended". Any subsequent non-payment therefore constituted a breach. The charterers had also previously sought specific performance of the purchase option in Ireland, further demonstrating that performance was not impossible.

5. the guarantee obligations survived independently. The guarantees expressly provided that, even if the underlying obligations were "unenforceable, invalid or illegal", the guarantors would remain liable under an independent primary indemnity. The guarantees therefore responded irrespective of whether the charterparties had been frustrated or terminated. The defendants' contention that the sanctions would continue indefinitely was unduly speculative and insufficient to warrant a trial.

III. Significance of the Decision

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1. Judicial confirmation of the "suspension rather than extinguishment" rule. This decision is consistent with *Gravelor v GTLK, the Mr M* proceedings and the related Irish decisions**: sanctions alter the mode of performance but do not, of themselves, extinguish contractual obligations.** This line of authority is directly relevant to Chinese shipowners, charterers and guarantors. Claims for hire or freight against designated counterparties are not automatically extinguished by designation, **although the claimant must demonstrate that available compliance routes, including licensing, have been exhausted**.

2. The decisive factor was the allocation of risk under clause 38.10, the "hell or high water" clause. On identical sanctions facts, where the contract allocates the risk to the charterers, suspension of payment constitutes a breach; **only where such a clause is absent or the allocation is unclear may there be scope for the doctrine of frustration. The drafting conclusion is that bareboat charter and financing lease documentation should expressly allocate sanctions risk and avoid any systemic inconsistency with the termination provisions.** *See GTLK Malta Four Ltd v Pola Maritime Ltd & Ors [2026] EWHC 2514 (Comm).*

3. A licensing route is a performance route. The Court treated the OFSI and OFAC licences as key evidence that performance was not impossible. The same logic underlies the general trade licence issued by the United Kingdom on 1 October 2026 for Japan in relation to the Sakhalin-2 project. Where a compliant route exists, the parties are obliged to use it and may not rely on the existence of sanctions alone to defend non-performance.

4. The insurance gap must not be overlooked. The judgment records that P&I cover terminated automatically on the date of the Owners' designation and that the charterparties remained without P&I cover for approximately two and a half years thereafter. For designated vessels and their transactional chains, both the insurance gap and the payment freeze are immediate and automatic consequences of designation. In assessing Russia-related business risks, the continuity of insurance should therefore be treated as a separate item for verification.

5. The drafting of guarantee instruments likewise determines the prospects of recovery. The guarantors invoked the alleged illegality, invalidity or unenforceability of the underlying obligations. Applying the broad interpretive approach in IDBI Bank and Gulf Bank, the Court held that the guarantee obligations survived. Parties holding guarantee **rights should therefore verify that their instruments contain three elements: an obligation to pay as principal obligor, an independent primary indemnity, and a waiver of defences extending to circumstances in which the underlying obligations are "unenforceable, invalid or illegal".** Parties providing guarantees for designated entities should anticipate that such wording will substantially undermine any sanctions-based defence.

IV. Recent UK and Japanese Developments: The Risk Is Arising Earlier

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In October 2026, the United Kingdom twice updated its sanctions list, adding a number of individuals, entities and vessels. Japan also listed 35 "shadow fleet" vessels and restricted Japanese persons from providing repair, insurance and financing services. Of particular note is the forward-looking language used by the United Kingdom in designating the Pyotr Stolypin: "is likely to be involved in carrying liquefied natural gas that originated in Russia...". At the time of designation, the vessel had no recorded cargo. This indicates that sanctions have shifted from ex post enforcement to ex ante prevention**. Their contractual consequences will likewise arise earlier: payments will be impeded sooner, insurance will terminate sooner, and recourse under guarantees will be sought sooner. The timing of risk reviews should be adjusted accordingly.**

The UK restrictions on services relating to Russian LNG also contain transitional arrangements. Long-term contracts concluded before 17 June 2025 may continue to be performed until the end of 2026. Upon the expiry of those arrangements on 1 January 2027, UK persons may provide services in respect of Sakhalin-2 cargoes only under two new licences, covering Japan and South Korea respectively. The relevant conditions are that the supply contract must have been concluded before 17 June 2025; **the cargo must be LNG from the Sakhalin-2 project; and the Office of Trade Sanctions Implementation (OTSI) must be notified within 30 days of the commencement of the activity, with records duly retained.**

The relevant parties should therefore take the following four steps:

- **Review legacy contracts and assess alternative arrangements following the expiry of the transitional period;**
- **Confirm whether the relevant business falls within the scope of the new licences, and avoid designated vessels and sanctioned persons;**
- **Preserve contractual exit mechanisms and avoid making business continuity unduly dependent on the extension of licences; and**
- **Incorporate into new contracts termination and renegotiation provisions linked to changes in sanctions lists and licensing regimes, and expressly allocate sanctions risk by reference to clause 38.10 in the present case.**

References

[1] FCDO, "Sanctions Notice, Russia, 01 October 2026"

[2] FCDO, "Sanctions Notice, Russia, 02 October 2026"

[3] FCDO, "Sanctions Notice, Russia, 08 October 2026"

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[4] Hill Dickinson， "UK sanctions update: Russia shadow fleet and Iran"

[5] Squire Patton Boggs， "Following the fleet: UK ship designations and Sakhalin-2 licences announced on 1 October 2026"；SI 2026/543；OTSI GTL OTSI20261001/GTL01

[6] *GTLK Malta Four Ltd v Pola Maritime Ltd & Ors [2026] EWHC 2514 (Comm)*

全文链接：https://caselaw.nationalarchives.gov.uk/ewhc/comm/2026/2514

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