Sanctions, Termination and Offshore Projects: When Geopolitical Risk Becomes a Contractual Dispute

By James Brown | September 22, 2026

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It was reported in early September that Arctic LNG 2 — the Novatek-controlled LNG development project — has filed an approximately US$1 billion arbitration claim against Hanwha Ocean (formerly Daewoo Shipbuilding & Marine Engineering) at the Singapore International Arbitration Centre. This arises following the earlier cancellation by Hanwha of ship-building contracts for certain icebreaking liquified natural gas (LNG) carriers originally ordered in 2020. These contracts were cancelled by Hanwha following the introduction of Russian-focused sanctions, and the yard's actions in cancelling have already resulted in earlier arbitration claims by the buyers under the shipbuilding contracts of approximately US$850 million against the shipbuilder. The latest claims involve claims that Hanwha has breached certain rights existing under related "step-in agreements". The underlying story is familiar: sanctions imposed in the wake of Russia's invasion of Ukraine have impacted the performance of commercial contracts and each side now blames the other for the consequences with very substantial legal claims arising. Inevitably, a key issue in these disputes will be the extent to which the introduction of the relevant sanctions entitled the shipyard to act as it has done so, or whether in so doing it had breached the relevant agreements.

The Arctic LNG 2 dispute is unlikely to be the last of its kind. For shipowners, offshore contractors, rig operators and shipbuilders, the case is a timely reminder that geopolitical risk does not merely disrupt projects — it generates complex, high-value contractual disputes. Without commenting on the merits of that particular claim, the issues it raises are worth examining.

When Do Sanctions Actually Excuse Performance?

The key question is deceptively simple. Does the introduction of a new sanctions regime excuse a party under an English law governed contract from further performing its contractual obligations? The answer to this question, however, is often far from straightforward and will usually necessitate the consideration of various areas of English law.

How Do the Sanctions "Bite" on the Contract?

The first step is to ascertain that the sanctions of concern do impact on the contract and, if so, the manner in which they do so. Is a party to the contract targeted expressly? Has it been designated in some express manner, or is it impacted by some sanctions regime because it operates in a particular sector? Is performance of the contract generally prohibited by the sanctions regime, or is some action that is not contractually required but must be taken to bring about the contractually required performance prohibited? As a first step, the party needs to identify the barrier or hindrance that arises from the sanctions and determine how it impacts contractual performance before considering the contractual consequences and/or reliefs that may be applicable.

i) Force Majeure Clauses

Having completed this first step, generally the next task is to consider the terms of the contract and determine whether the parties had turned their minds to the possibility of sanctions impacting on the contract in the negotiation and agreement of their contract. Sometimes the parties will have made express contractual provision for such instances and the consequences. Then, the task will be to construe the meaning of such contractual provisions according to the ordinary English law principles governing the construction of contractual terms. The contractual consequences may be very clear indeed, but often there will be room for differing interpretations with the resulting potential for expensive litigation or arbitral proceedings to determine the issue.

Commonly within offshore construction, shipbuilding and EPC contracts, the possibility of sanctions impacting on the ability of parties to perform the contract will be addressed within express force majeure clauses. The existence and scope of any relief arising from such clauses will depend in large part on the parties' precise drafting (although English law may also sometimes operate to imply terms which operate to expand upon express contractual provisions).

A force majeure clause typically requires the affected party to show that an event beyond its reasonable control has prevented, hindered or delayed its performance. The clause will then usually provide for the contractual consequences that follow from such an event (e.g. that the obligation be suspended, sometimes that the contract may be terminated should the force majeure event continue to have an impact over a specified period of time). The introduction of sanctions may be specified as being a force majeure event, although sometimes the language may be less clear than a direct reference to sanctions – e.g. to "acts of government" or "legislative acts" – albeit sufficient to extend to sanctions.

The Potential for Relief Even if Performance is Not Impossible

Disputes can arise in respect of force majeure provisions, which provide that a party's obligations may be suspended, excused entirely or altered in cases where the performance of their contractual obligations is *hindered* or *impacted* by contractually specified instances of force majeure. It is well established under English law that clauses of this nature have a wider field of operation than those limited to events which "prevent" performance, and so parties will often seek to rely on such more generous wording to obtain relief from contractual obligations. In *Peter Dixon & Sons Ltd v. Henderson Craig & Co Ltd* [1919] 2 KB 778, Bankes LJ expressed the view that preventing performance meant that it had to be impossible, whereas "hindering" meant *"something less than that namely rendering delivery* [i.e. performance of the contract] *more or less difficult, but not impossible".*

In this context, the issue of causation will be a key one. The sanctions must have actually prevented or impeded the relevant performance. In *RTI Ltd v MUR Shipping BV* [2024] UKSC 18, the Supreme Court noted that the causal question is to be assessed by reference to the parameters of the contract. A party cannot simply point to the existence of a sanctions regime; it must show that the specific prohibition caused its specific failure to perform.

This is particularly relevant in the offshore and shipbuilding context, where projects involve long and complex supply chains. If a yard's subcontractor is sanctioned but the yard itself is not, the question becomes whether the yard could reasonably have sourced an alternative supplier. Conversely, if the sanctions target the end-user of the vessel or installation, the yard may argue that delivering the asset would expose it to secondary sanctions risk — but it will need to demonstrate that this risk is real and not merely speculative.

Problems With the Settlement of Debts

Sometimes a party may be faced with an obligation to meet a payment obligation that has already accrued under a contract (i.e. to settle a debt) but is faced with the introduction of new sanctions which impacts on the ability of the party to pay. A force majeure clause may not, however, operate to allow the debtor party to refrain from promptly meeting its payment obligation, even in cases in which the force majeure clause necessitates only demonstrating that the paying party is “hindered” in performing as required (i.e. by paying the debt). Usually it will be necessary to establish very significant difficulties in making such a payment before English law would consider the obligation to be suspended. Thus, in *Litasco SA v. Der Mond Oil & Gas and another* [2023] EWHC 2866 Mr Justice Foxton in the High Court (Commercial) determined that, in such case, *“a significant degree of difficulty would be required, perhaps one approaching, albeit falling short of, impossibility”.*

To what extent may the offer of an alternative performance being provided preclude a party from relying on force majeure?

Force majeure clauses will often provide that a specified occurrence. For example, the introduction of new sanctions can only be invoked as an event of force majeure if the party seeking to rely on the event cannot overcome its impact by the exercise of reasonable efforts. A question which has arisen in this context is whether, in such case, the other party to the contract can defeat a party’s invocation of a force majeure clause on the basis that it offered that party an alternative performance of the contract but the other party refused to accept that?

This is where the UK Supreme Court's decision in the *MUR Shipping* judgment is of particular significance. In that case, U.S. sanctions on the charterer's parent company impeded payment of freight in U.S. dollars. The charterer offered to pay the shipowner in euros and indemnify the shipowner for any conversion costs involved in converting the euros to dollars. The charterer contended that in these circumstances the owner was precluded from relying on the force majeure provisions of the contract to suspend performance; rather it had to accept what the charterer had instead offered by way of performance and continue to perform its obligations.

Ultimately, on an eventual determination of whether this was right, the Supreme Court unanimously rejected the initial determination of the arbitral tribunal and of the Court of Appeal, and agreed with the outcome in the High Court. There, the judge had determined that reasonable endeavors did not require MUR to “*sacrifice their contractual right to payment in US dollars, and with it their right to rely upon the force majeure clause.*” In the Supreme Court, Lord Hamblen and Lord Burrows held that, absent express wording, a reasonable endeavors proviso in a force majeure clause does not require the affected party to accept non-contractual performance. Several principles were key: that force majeure clauses concern impediments to contractual performance (such that the question is whether reasonable steps could have been take to bring about contractual performance by removing such impediment); that freedom of contract includes the freedom not to contract, including the freedom not to accept the offer of a non-contractual performance of the contract; that clear words are needed to forego valuable contractual rights (including the right to refuse a tender of performance which was other than as contractually required); and that certainty and predictability in English commercial law militate against untethering the inquiry from the contract's own terms.

For shipbuilders and offshore contractors, *MUR Shipping* is significant. The decision means that a party invoking force majeure in the face of sanctions impacting its counter-party’s performance is not obliged to accept workarounds that depart from the agreed contractual terms — for example, payment through alternative banking channels, delivery to a different location or substitution of a non-sanctioned subcontractor — unless the contract expressly so requires.

ii) “Change in Law” and Sanctions Clauses

"Change-in-law" clauses, common in EPC) and offshore contracts, may also be engaged. These typically entitle a contractor to relief (often by way of time extension or cost adjustment) where new legislation or regulation affects its ability to perform. A fresh sanctions regime may constitute such a change in law, but the clause must be carefully analysed to determine whether it covers the specific regulatory measure in question and the contractual consequences arising therefrom.

Often, the contract may contain an express clause dealing specifically with sanctions and more extensively than this may be addressed within a force majeure or change of law provision. Such clauses may be multi-tiered, containing express warranties that no party to the contract is subject to sanctions or acting on behalf of or at the direction of any such person, and that neither entering into the relevant agreement nor performing will give rise to liability under any sanctions regime. Breach of such warranties will typically give rise to the damages claims on the innocent party. Sanctions clauses may also operate to expressly excuse a party from having to perform as otherwise required under the contract, with such clauses intended to avoid a party from having to otherwise perform and to commit sanctions breaches.

Difficulties can arise for contractual parties upon the implementation of new sanctions – in particular, the need to determine whether contractual provisions to sanctions can be relied upon by a party to refrain from having to perform. Recently, in *Tonzip Maritime (Singapore) PTE Ltd v. 2 Rivers PTE Ltd* [2026] EWCA, the Court of Appeal considered a dispute arising from the refusal by an owner of a vessel to comply with instructions issued by the charterer to load and transport a cargo of oil. The owner was concerned this would involve breaching sanctions law. Central to the dispute was a sanctions clause, which entitled the owners to disregard orders issued by the charterer *"which in the reasonable judgment of the owners, is prohibited by sanctions of will expose the owners….to sanctions".* In a judgment that recognised that commercial parties may be required to make quick decisions due to the potential impact of sanctions on their contractual arrangement in the face of imperfect factual knowledge, the Court of Appeal determined (thereby upholding the determination of the judge at first instance) that this clause – entitling owners to disregard orders from the charterers – did not require owners to have reasonably determined, on a balance of probabilities, that complying with the orders would mean that sanctions would be contravened. Rather, the clause entitled them to disregard the orders, having reasonably judged there to be a real risk of a breach of sanctions if they complied with the orders. The judgment is to be considered more fully in a related article that will shortly be published by Haynes Boone.

iii) Frustration

Where the contract does not make express provision as to the contractual consequences of the imposition of new sanctions which affect the parties' performance under the contract, possible relief may arise by operation of the common law doctrine of "frustration".

Generally speaking, a frustrating event is an event which:

- Occurs after the contract has been formed.
- Is so fundamental as to be regarded by the law both as striking at the root of the contract and being entirely beyond what was contemplated by the parties when they entered the contract.
- Is not due to the fault of either party.
- Renders further performance impossible, illegal or makes it radically different from that contemplated by the parties at the time of the contract.

Many sanctions regimes operate with greater nuance. They may target specific entities, restrict certain categories of payment or prohibit dealings with particular sectors without rendering every aspect of a contract unlawful. In such cases, the party seeking to rely on the sanctions must demonstrate a direct link between the prohibition and the obligation it says it cannot perform. A general climate of sanctions risk or a bank's unwillingness to process a payment may not suffice to establish that, in law, the contract has been frustrated.

If a contract is determined to have been frustrated, the consequence is to discharge the contract (whereas, usually, a force majeure clause will provide for the suspension of parties' obligations at least until some long-stop date when there may be a contract right provided to terminate).

The English High Court's analysis in *Canary Wharf (BP4) T1 Ltd v European Medicines Agency* [2019] EWHC 335 (Ch) — though concerned with Brexit rather than sanctions — provides a useful framework for considering frustration by supervening illegality and its limits.

iv) Supervening Illegality

Alternatively, there is the potential for relief to arise under English law from supervening illegality, which operates as a matter of law rather than contract. Where performance of an English law governed contract becomes illegal under English law, an English court may determine that the party whose performance would be illegal is excused from further performance due to illegality (or rather will refuse to enforce any claim for non-performance by the other party). Sanctions laws or regulations themselves may sometimes make clear that this follows from their implementation, or make clear that non-performance of a contract in the reasonable belief that this is necessary to comply with the sanctions will not be actionable.

Mitigation and Downstream Losses

The sums at stake in the Arctic LNG 2 claims — approaching US$2 billion in aggregate — illustrate the scale of downstream losses that can flow from sanctions-related project disruption. Under English law, a claimant must take reasonable steps to mitigate its loss, and damages that are too remote will not be recoverable. Where a project collapses because of sanctions, the question of what alternative steps were available — and when — will be fiercely contested.

Practical Recommendations

The Arctic LNG 2 arbitrations are a stark illustration of the possible contractual difficulties that may arise from geopolitical risk. For those operating in the offshore, shipbuilding and energy sectors, the key lessons are these: ideally, contracts should contain specific clauses addressing the potential for sanctions to arise which extend to the performance that is required under the contract, and for such clauses (whether force majeure or change-in-law or specific sanctions clauses) to be tailored in respect of the particular contract, rather than to be boilerplate; the drafting should express the contractual consequences that are to result in such a case; force majeure provisions should be reviewed in light of *MUR Shipping*; causation and mitigation will be battlegrounds in any claim; and the interplay between force majeure, change in law/sanctions provisions, illegality and frustration must be understood before — not after — a dispute arises.