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Trump Withdraws Proposed Strait of Hormuz Transit Fee Amid Legal Concerns and Global Maritime Opposition

Published On: 17-07-2026

Recent Developments:

- **United States President Donald Trump** withdrew his proposal to impose a **20% transit fee** on commercial cargo passing through the **Strait of Hormuz**, barely a day after announcing it, and stated that the proposal would instead be replaced by **Trade and Investment Deals** with Gulf countries.
- The proposal faced strong opposition from the **International Maritime Organization (IMO)**, shipping companies and legal experts, who argued that international law does not permit mandatory transit charges through international straits used for navigation.
- The controversy emerged amid renewed **United States–Iran tensions**, military escalation around the Strait of Hormuz, and continuing concerns regarding global energy security and freedom of navigation.

About the Strait of Hormuz:

Geographical Significance:

- The **Strait of Hormuz** is a narrow maritime passage connecting the **Persian Gulf** with the **Gulf of Oman** and the **Arabian Sea**.
- It lies between **Iran** to the north and **Oman** and the **United Arab Emirates (UAE)** to the south.
- It is one of the world's most important **maritime chokepoints** for energy transportation.

Strategic Importance:

- Nearly **20% of global petroleum liquids** and a significant share of global **Liquefied Natural Gas (LNG)** trade pass through the Strait every day.
- Major energy exporters using the Strait include **Saudi Arabia, Iraq, United Arab Emirates, Kuwait, Qatar**, and **Iran**.
- Any disruption in the Strait immediately affects global oil prices, shipping costs, insurance premiums and supply chains.

Trump's Proposed Transit Fee:

Original Proposal:

- The proposal declared the **United States** as the "guardian" of the Strait and sought a **20% reimbursement fee** on commercial cargo to recover the costs of providing maritime security.
- The proposal intended to charge vessels transiting the Strait irrespective of their nationality.

Major Ambiguities:

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- It remained unclear whether the fee would be calculated on the **cargo value**, **shipping cost**, or **security expenditure** incurred by the United States.
- No institutional mechanism was specified for collection, enforcement or dispute resolution.
- The proposal failed to clarify the legal authority under which such charges could be imposed.
- Questions also arose regarding whether the United States could realistically guarantee uninterrupted security in such a conflict-prone region.

Legal Issues under International Maritime Law:

Position under UNCLOS:

- The **United Nations Convention on the Law of the Sea (UNCLOS)** recognises the principle of **Transit Passage** through straits used for international navigation.
- Ships and aircraft enjoy the right of continuous and expeditious passage without unnecessary interference.
- International law generally does not permit mandatory tolls merely for transiting a natural international strait.
- Although neither the **United States** nor **Iran** has ratified **UNCLOS**, many of its navigation provisions are widely regarded as **Customary International Law**.

Position of the International Maritime Organization (IMO):

- The **International Maritime Organization** opposed the proposal, stating that there is **no legal basis** for imposing mandatory transit fees on international straits.
- The proposal was also viewed as inconsistent with the long-standing United States policy supporting **Freedom of Navigation** worldwide.

Why the Proposal was Considered Impractical:

Economic Concerns:

- A **20% fee** linked to cargo value would substantially increase shipping costs.
- Higher freight costs would eventually increase international prices of crude oil, natural gas, fertilisers and other traded commodities.
- Shipping companies would also face higher insurance and operational expenses.

Diplomatic and Strategic Concerns:

- The proposal contradicted the traditional United States position opposing similar Iranian claims over the Strait.
- It could have indirectly strengthened Iran's future claims for imposing its own transit charges.
- The proposal risked undermining confidence in international maritime governance.

United States–Iran Contest over the Strait of Hormuz:

Strategic Competition:

- The Strait has become a major arena of geopolitical competition between the **United States** and **Iran**.
- Iran has asserted greater control over parts of the Strait and has challenged vessels operating outside designated shipping corridors.
- The United States has responded through military deployments and naval operations to protect maritime trade.

Recent Developments:

- A temporary **United States–Iran agreement** in **June 2026** briefly improved shipping activity through the Strait.
- Renewed military tensions subsequently reduced commercial vessel movements and increased risks for global shipping.
- Iran temporarily restricted commercial navigation, prompting renewed United States naval operations in the region.

Importance of the Strait for India:

Energy Security:

- India imports nearly **40%** of its crude oil, **60%** of its **Liquefied Natural Gas (LNG)** and around **90%** of its **Liquefied Petroleum Gas (LPG)** requirements through the Strait of Hormuz.
- India's overall import dependence exceeds **88%** for crude oil and remains significant for natural gas and LPG.

Economic Implications:

- A **20% transit fee** could have substantially increased India's annual energy import bill.
- Every increase of **1 US Dollar per barrel** in crude oil prices significantly raises India's import expenditure.
- Higher energy prices would widen the **Current Account Deficit (CAD)**, increase inflationary pressures, weaken the **Indian Rupee**, and adversely affect industrial competitiveness.

India's Response to the Crisis:

Policy Measures:

- India has consistently supported **Freedom of Navigation** through international waterways.
- The Government diversified crude oil sourcing to reduce immediate supply risks.
- Temporary measures were adopted to ensure domestic fuel availability and prevent panic buying.
- Following improved regional conditions, some emergency restrictions were gradually withdrawn.
- India also increased crude oil imports to strengthen strategic energy security despite higher international prices.

Broader Implications for Global Trade:

Global Economic Impact:

- The Strait of Hormuz remains one of the world's most critical maritime chokepoints.
- Any disruption affects global energy markets, inflation, maritime insurance, shipping costs and international trade.
- Prolonged instability could accelerate diversification of global energy transport routes and strategic petroleum reserves.

Way Forward:

Strengthening Maritime Security and Energy Resilience:

- International disputes relating to strategic waterways should be resolved through **international law**, **multilateral diplomacy**, and established maritime institutions.
- The principle of **Freedom of Navigation** should remain central to global maritime governance.
- Energy-importing countries should diversify crude oil suppliers, expand **Strategic Petroleum Reserves (SPR)** and accelerate renewable energy adoption to reduce vulnerability.

- Greater cooperation among regional stakeholders, including Gulf countries, should be encouraged to ensure uninterrupted commercial navigation.
- International institutions such as the **International Maritime Organization (IMO)** should continue strengthening maritime safety, conflict prevention and legal certainty for global shipping.

UPSC Relevance:

GS Paper II:

- **International Relations, India–West Asia Relations, International Law, Global Governance, Maritime Security.**

GS Paper III:

- **Energy Security, Economic Development, Infrastructure, Internal and External Security, Supply Chain Resilience.**

Prelims Pointers:

- **Strait of Hormuz** connects the **Persian Gulf** with the **Gulf of Oman**.
- **UNCLOS** recognises the principle of **Transit Passage** through international straits.
- **International Maritime Organization (IMO)** is the specialised United Nations agency responsible for maritime safety and prevention of marine pollution.
- The Strait of Hormuz is among the world's most important **oil transit chokepoints**.

Value Addition for UPSC:

Related Concepts and Institutions:

- Important global maritime chokepoints include the **Strait of Hormuz, Bab el-Mandeb Strait, Strait of Malacca, Suez Canal, Panama Canal, and Turkish Straits**, all of which are critical for international trade and energy security.
- India's maritime strategy is guided by initiatives such as **Security and Growth for All in the Region (SAGAR)**, the **Indo-Pacific Oceans Initiative (IPOI)**, **Mission-Based Deployments**, and the **Information Fusion Centre – Indian Ocean Region (IFC-IOR)**, which strengthen maritime domain awareness, secure Sea Lines of Communication (SLOCs), and enhance regional maritime cooperation.
- Ensuring **Freedom of Navigation**, adherence to **international maritime law**, diversification of energy sources, and resilient global supply chains will remain central to global energy security and India's long-term strategic interests.

Conclusion:

- The rapid withdrawal of the proposed **Strait of Hormuz transit fee** demonstrated the legal, diplomatic and economic limitations of imposing unilateral charges on an international maritime passage.

For India, the episode highlights the continuing strategic importance of the Strait of Hormuz and reinforces the need to strengthen **energy security**, diversify import sources, uphold **rules-based maritime order**, and actively support **cooperative maritime governance** in the Indo-Pacific and West Asian regions