



Strait up tolls?

What a Hormuz precedent means for the world's waterways

Summary

- The new economics of global waterways is evolving in real time. This is largely due to Iran's closure of the Strait of Hormuz but is also driven by tensions elsewhere, including in the South China Sea.
- Australia's economy is reliant on international maritime trade, with exports accounting for nearly 25% of GDP in 2024. The vast majority (more than 99%) of Australia's international trade by volume moves through sea.¹
- The United Nations Convention on the Law of the Sea (UNCLOS) enshrines the right of free transit passage through international straits. UNCLOS Article 26 states that no charge may be levied on foreign ships 'by reason only of their passage through the territorial sea.' Charges are allowed 'as payment only for specific services rendered to the ship,' and they must be non-discriminatory.²
- There is a distinction between a fee for services and toll for transit. A toll is a charge imposed for access to a maritime route, whereas a fee is payment for specific service provided to aid a ship.
- Allowing Iran to charge a toll for transiting the Strait of Hormuz would set a precedent that could upend UNCLOS and the longstanding distinction between service fees and transit tolls and would directly impact Australia's freedom of movement and economic security.

- Charges for transit at key maritime straits would constitute a fee on global seaborne trade, driving up energy and goods prices, straining global supply chains and potentially igniting broad geopolitical unrest.
- Consenting to or complying with a Hormuz passage charge could end global freedom of navigation.

Introduction

The new economics of global waterways are taking shape, influenced by the dissolution of many agreed international norms, laws and key principles of maritime trade. The US–Iran War has many focused on negotiating a deal to keep the Strait of Hormuz toll-free, but little attention has been paid to the precedent such a toll may set.

There is a key distinction between a fee and a toll. International law allows states to recover the costs of services they provide to support shipping. Examples include pilotage, traffic management, or measures to secure environmental protections.³ These are fees. A toll charged for passage itself rather than a service is different and, in international straits, prohibited.

Service fees are charged for traversing some key waterways including the Suez and Panama canals, the Torres Strait and the Russian Arctic Northern Sea Route. Iran is threatening to charge for passage through the Strait of Hormuz, arguing international passage attracts service fees. Iran shouldn't be empowered to manipulate UNCLOS or charge a fee for a risk it created.

Disruption in the Strait of Hormuz has flow-on trade effects for Australia, as would any fees that might be applied for passage. The larger strategic challenge, however, is the precedent this would set for charging vessels to use maritime passageways in Australia's own region. This explainer considers how such a shift in practice could affect three global waterways beyond the Strait of Hormuz: the Malacca Strait, the South China Sea and the Bering Strait.

On fees and tolls

UNCLOS's preamble sets out a vision of a 'legal order for the seas and oceans which will facilitate international communication and will promote the peaceful uses of the seas and oceans'.⁴

Under extant international law of the sea, states cannot charge for transit passage of international waterways. However, service fees are permissible.⁵ The Suez and Panama canals are examples of waterways that charge fees. These passages are man-made with legitimate grounds to recoup operational costs. Australia effectively pays transit fees – through exporters, importers and the shipping firms that service our nation – when using the Suez and Panama canals.

Australia itself charges waterway fees. The Torres Strait is an international waterway that Australia deems a 'particularly sensitive sea area'.⁶ Supported by the International Maritime Organization, Canberra charges a fee to cover the costs of protecting the maritime environment and enabling safe passage through the strait's shallow and fraught operational waters.

Also using environment and safety grounds, Russia charges a fee for vessels seeking to access the Arctic Ocean's Northern

Sea Route (NSR).⁷ The NSR hugs the Russian Arctic coastline and comprises various straits that many states view as international waters.

Moscow applies UNCLOS Article 234 (known as the 'ice rule') to the waterway. This article enables states to apply certain rules or regimes to protect the environment and ensure operational safety for vessels transiting.⁸ Any vessel transiting the NSR is required to obtain a permit, give prior notice and pay a fee. Vessels can only transit the waterway under Russian pilotage (a service in which a specialised navigator guides the vessel).

The NSR cuts shipping distance from East Asia to Northern Europe by 40% compared with the traditional Suez Canal route, making it an alluring geoeconomic proposition for rising powers. Beijing is an active user of the NSR and is happy to pay associated fees for the privilege.

If UNCLOS becomes the next casualty of a fraying rules-based order, the future of international maritime trade will be written by power, not principle. Globalisation itself depends on the open seas. Who might be the next power to attempt to monetise their proximity to key global waterways? Is our maritime economy, Australia's lifeline to the global trade system, agile enough to respond?

Strait of Hormuz

The Strait of Hormuz is an international strait, which falls within the territorial waters of both Oman and Iran. Iran is threatening to toll the strait for transit alone, which is a breach of UNCLOS and an overt puncture in a central part of a latticework of international rules and norms.

Figure 1: Selected maritime chokepoints explored in this explainer.



Source: ASPI

Iran has already begun building operational infrastructure that could enable Tehran to claim it is charging service fees, rather than charging just for transit. During the 2026 US–Iran War, Tehran established a Persian Gulf Strait Authority, requiring vessels to obtain a passage permit and even seeking fees of up to US\$2 million (A\$2.7 million) per voyage for foreign ships.⁹ A (now defunct) June 2026 memorandum of understanding with the United States suspended proposed fees for 60 days, but Tehran has remained resolute in stating any reprieve is temporary and that the strait ‘will never return’ to pre-war operations.¹⁰

Iran has exercised some creative interpretation of extant international law, insisting that its charges for passage through the strait are not tolls. Tehran notes fees are for services rendered, including navigational assistance, relevant insurances and environmental protective action jointly administered with Oman.¹¹ A genuine service fee is lawful, but a charge for the right of passage is not. Iran cites services in its fee argument that never applied pre-war. Other nations should refuse to pay these new charges and condemn them as breaches of UNCLOS.

US President Donald Trump’s administration has made toll-free passage a condition of any peace deal with Iran. Arguably, service fees are no hurdle to securing peace. However, a fee charged for passage through the Strait of Hormuz would set a concerning precedent for waterways closer to Australia. For this reason, regardless of what view governments have on the war, they should all condemn and reject fees imposed by Iran.

Malacca Strait

The Malacca Strait is one of the world’s busiest maritime chokepoints. It links the Indian Ocean to the South China Sea and the Pacific Ocean and carries roughly a quarter of the world’s traded goods. In April 2026, Indonesian Finance Minister Purbaya Sadewa noted that ships passed through the strait without paying. He raised the possibility of imposing a fee, suggesting that revenue could be split three ways between Indonesia, Malaysia and Singapore.¹²

Sadewa is not the first regional official to float the idea of monetising the Malacca Strait, nor will he be the last. Singapore’s Foreign Minister, Vivian Balakrishnan, already rejected charges on the strait as a matter of principle, insisting that transit passage ‘is not a privilege to be granted’ by coastal states.¹³

Should Indonesia, Malaysia and Singapore agree on a service fee for use of the strait, consumer prices in Australia would rise. Two-thirds of Australian exports and 40% of our imports pass through the Strait of Malacca.¹⁴ Higher costs would be passed on to the Australian consumer, and Australian commodities could become slightly less competitive. On both sides of the economic security coin, Canberra would face low to moderate pain in this new normal.

South China Sea

The South China Sea is a vital maritime theatre comprising eight key networked trade passages: the Balabac, Makassar, Malacca, Mindoro, Lombok, Luzon, Sunda and Taiwan straits. While the US isn’t directly reliant on the South China Sea for much of its own trade, key allies and partners – including Japan, South Korea, India and Australia – are heavily dependent on these waterways.

Any fee scheme normalised by Iran in the Strait of Hormuz risks emboldening China to implement a similar system. Beijing has focused much of the past decade on expanding its presence, policies and capabilities throughout the South China Sea. The past 12 months have seen another significant increase in China’s aggressive activities in the South China Sea, particularly targeting the Philippines. It only follows that Beijing would seek to monetise a sea it already views as sovereign.

China administers maritime-safety, traffic-management and environmental-protection schemes across much of the South China Sea. Beijing is likely to use these services as an institutional basis for applying fees to a fifth of global maritime trade.

Networked maritime passages of the South China Sea are critical to Australian prosperity. Canberra relies on these waterways to export primary resources to Chinese, Japanese and South Korean markets. Service fees in the South China Sea would hit export shipping costs, squeeze our export margins, and raise the price of the imports including goods and fuel.

Australia can’t competitively (nor cheaply) reroute this trade, and Canberra can’t control these waterways through force. If China were to impose service fees, Australia would have no option but to pay them.

Bering Strait

The Bering Strait is the Pacific gateway into the Arctic Ocean, connecting Asia with Europe. As climate reshapes global maritime corridors, it will become a chokepoint of vital significance to the maritime power of the day. The northern global maritime corridor will shorten east–west distances by 40%, cutting transit times by up to two weeks. Arctic routes also offer vital redundancies to disruptions in maritime theatres such as the South China Sea.

The Bering Strait separates the US from Russia. Rising Chinese interest and activity in the North Pacific and Arctic oceans have resulted in an even more complex geopolitical dynamic for the strait. Congestion, routine military friction and the risk of accidents in the region compound the challenge further – all before the strait has even come online as a busy maritime trade corridor.

Should a bilateral agreement be struck between Washington and Moscow to charge for passage through the strait, it would be framed as a service fee. The institutional basis already

exists - it is an environmentally challenging region and home to indigenous peoples from both nations. The political will of both states to collaborate on this project is an obvious hurdle, although it may be a source of future cooperation, justified by the expected surge in Arctic traffic.

While a Bering Strait service fee is wholly speculative, various US–Russia joint projects in the region have been touted. An undersea rail and cargo link beneath the Bering Strait, connecting Russia with the US, is one recent example, proposed by Russia in October last year.¹⁵

South Korea and Japan have legislated domestic maritime strategies to include future use of Arctic maritime routes. This year, both countries dispatched cargo vessels to test the commercial viability of using the NSR. These maritime states are looking to reduce dependence on traditional east–west maritime corridors such as the Malacca Strait or the Suez Canal. India is also pivoting to the Arctic, announcing it would send its first cargo vessel through the NSR in 2027.¹⁶ Not only could Australia soon become an even more isolated trading partner, but Russian Arctic liquefied natural gas could potentially become a more competitive alternative to Australian liquefied natural gas in the long-term.

Conclusion

International law of the sea is a silent victim of the US–Iran War. The four waterways explored in this explainer are at varying stages of triage. For the Strait of Hormuz, the erosion of the extant rules-based order at sea is well underway. Iran is set on charging for passage by falsely creating and claiming service fees, despite the absence of such stipulated requirements pre-war. All nations should work together to prevent this.

The allure of the Malacca Strait’s fiscal potential has resurfaced with Sadewa publicly discussing passage fees. For now, coastal states remain committed to the status quo. In the South China Sea, Beijing has long acted in its own interests at the expense of international law. The most significant risk is that a Hormuz fee would set the precedent for China to implement similar fees. While the Bering Strait remains tied to the Arctic theatre as a future frontier, ample basis exists for service fees to be enacted. In this regard, the precedent set by Tehran’s fees would likely be viewed favourably by Moscow.

While service fee regimes don’t breach international law, the introduction of fees on these selected waterways would undoubtedly erode one of the oldest pillars of international order: freedom of navigation. Our acceptance of tolls

masquerading as service fees in the Strait of Hormuz could set a damning precedent. It is clear from Tehran’s language and actions that it will indeed attempt to create administrative costs to falsely justify service fees.

Island nations such as Australia are reliant on sea lines of communication for national security, economic prosperity and state survival. Consequently, they have the most to lose if Iran’s interpretation of international law of the sea creates a new normal.

Fees at the Strait of Hormuz could cause a domino effect impacting many major waterways. To prevent that first domino from falling, Australia should work with other maritime trading states to dissuade Iran from implementing its transit fee agenda. Canberra should also reassess the resilience of Australia’s economy should we enter a world where maritime passage alone has a price.

Notes

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About the authors: Elizabeth Buchanan is a Senior Fellow at ASPI. Adel Abdel Ghafar is a Senior Resident Fellow at ASPI. AI contributed no ideas to this report.

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