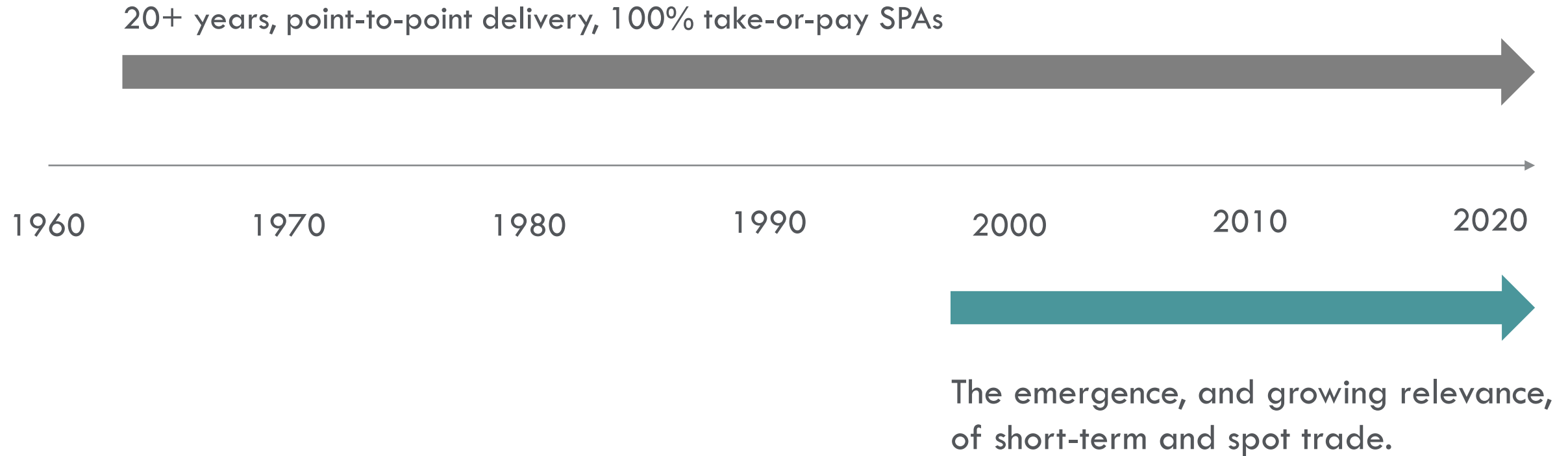


Contract flexibility: How will LNG SPAs look in the 2020s?

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2020s: The critical decade for LNG SPAs



Contract flexibility: three key dimensions

- 1) Pricing flexibility
- 2) Operational flexibility
- 3) Contract reopening flexibility



1) Pricing flexibility



Securing long-term pricing flexibility

- New-generation price review clauses
- Recourse to formal dispute resolution
- Non-temporal triggers in Asian LNG SPAs



Change of circumstances

- Change of circumstances as a price review trigger
- The relevant market and the role of buyer's market
- 'In any case' clause and financial position of the parties



2) Operational flexibility



Responsiveness to market disruptions

- The notion of ‘genuine operational needs’
- Separate contractual regime for adjustments
- Expedited decision-making process



Cargo cancellations

- Multiple cargo cancellations in response to the pandemic
- Cancellation clauses in US LNG contracts
- Cancellation options in other contexts



3) Contract reopening flexibility



The ability to reopen both price and non-price terms

- No practicable basis for a comprehensive contract renegotiation
- Adjustments to non-price terms as secondary outcomes of price reviews
- Keeping the entire contract in line with changing market fundamentals



Model renegotiation clause

It is hereby agreed ... that in the event of any major physical or financial change in circumstances ... either party may serve notice on the other requiring **the terms of this [contract] to be re-negotiated** with effect from the date on which such notice shall be served. The parties shall immediately seek to agree amended terms reflecting such change in circumstances and if agreement is not reached within a period of six months from the date of the notice the matter shall be **referred to an Arbitrator** (whose decision shall be binding on both parties and who shall so far as possible be an expert in the area of dispute between the parties)...

ABP v Tata Steel [2017] EWHC 694 (Ch), emphasis added

Ason, A. (2020). '[Scenarios for Asian long-term LNG contracts before and after COVID-19](#)', OIES Paper NG 160.

Key considerations

- Clear basis for renegotiation
- **Price and non-price terms**
- Gradual contract adjustment

Modifications

- Trigger events
- Contract review process
- Limits to contract adjustment



Conclusions and outlook

1. SPAs will remain the key contractual mechanism for international LNG sales in the 2020s.
2. The primary choice will be made between flexible long-term deals and shorter contracts.
3. Contract reopening flexibility needs to be structured carefully.
4. COVID-19 has highlighted the need for adjustments to non-price terms.
5. In the 2020s, LNG contract terms will be more diverse and, potentially, more transparent.



OIES publications

Ason, A. (2020). [Scenarios for Asian long-term LNG contracts before and after COVID-19](#), OIES Paper NG 160.

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Ason, A. (2019b). [Price reviews: Are Asian LNG contract terms finally changing?](#), Oxford Energy Forum, Issue 119, LNG in Transition: from uncertainty to uncertainty.

Rogers, H., Stern, J. (2014). [Challenges to JCC Pricing in Asian LNG Markets](#), OIES Paper NG 81.