

Myles Mantle, Rob Patterson Discuss LNG Force Majeure Dispute

February 18, 2020

PRACTICES Energy, Power and Natural Resources, Liquefied Natural Gas (LNG)

Haynes Boone Partners Myles Mantle and Rob Patterson were quoted in several recent news reports about China National Offshore Oil Corporation invoking a force majeure clause amid the coronavirus outbreak.

Below is a sampling of the coverage:

[LNG Industry](#)

Following the news that China National Offshore Oil Corp. has invoked force majeure on several LNG deliveries, Rob Patterson and Myles Mantle, London Partners at law firm Haynes Boone, have offered their insights.

Myles Mantle commented: “Those of a more cynical disposition would say this may be an attempt to unwind long-term LNG sales and purchase contracts using force majeure as an excuse, on the basis the LNG spot market prices are significantly lower and there is excess supply in the market right now, with potentially new suppliers whispering in the ear of the buyers that they can achieve same volumes at much lower prices.

“It’s worth mentioning the price difference between long-term sales and the spot market. Unless there is this mysterious alternative supplier out there able to cover all volumes, it would be very short term thinking as the spot market does not seem significantly developed to be able to cover the volumes required, and Chinese companies have spent years trying to build up sustainable supply.”

Rob Patterson added: “Given the adverse impact on the Chinese economy that the coronavirus outbreak will undoubtedly have, it’s perhaps not surprising that Chinese LNG buyers may be looking at ways of reducing or suspending their take obligations under long-term supply contracts. Serving a force majeure notice is likely to be the obvious first step.

“Obviously each contract would need to be looked at individually, but we think it is unlikely that the outbreak, and the reduced LNG demand resulting from it, will – on its own – constitute force majeure under many supply contracts.”

[Reuters](#)

LNG contracts are typically governed by English law, which spell out events constituting a force majeure and some may include the epidemic clause, lawyers told Reuters. Serving the force majeure notice is the first step in a drawn-out process, they said.

Also, the onus to demonstrate a force majeure is on buyers to prove that they are not physically able to receive the cargo. For instance, if there are port closures or if workers are unable to get to the ports due to the virus.

“Force majeure is usually aimed at dealing with events such as unforeseen operational outages, rather than changes in broader economic circumstances, such as LNG demand or exchange rates,” said Rob Patterson, partner at law firm Haynes Boone.

The following publications also covered the topic:

[CNBC News](#)

[Upstream](#)

[Financial Post](#)