Rob Patterson, Shu Shu Wong in Law360: Coronavirus Brings Force Majeure Claims to LNG Contracts

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As reports surfaced in January of the rapid spread of the novel coronavirus — officially known as COVID-19 — in and outside China, and as the Chinese State Council ordered the shutdown of cities and factories and extended the lunar new year holiday, anxious energy executives would have been reaching for copies of their liquefied natural gas sale and purchase agreements, or LNG SPAs, the contracts under which their companies sell liquefied natural gas to China, and putting in calls to their legal departments.

Force majeure would have been on their minds, even if they couldn't instantly recall how the (probably heavily negotiated) provisions ended up in the final signed agreements.

By the beginning of 2020, Chinese LNG buyers were already under some pressure. Against the backdrop of expensive longterm LNG SPAs (with prices often linked to the oil price but faced with Asian spot prices at decade lows) and faltering domestic gas demand (caused in part by the impact on industrial activity from the trade war with the United States, but also on a milder-than usual winter), the emergence of the coronavirus epidemic presented yet another challenge.

It was only a matter of time before a buyer invoked force majeure as a means (or in the hope) of avoiding its contractual purchase commitments. In early February it was reported that China National Offshore Oil Corporation had invoked force majeure under its contracts with Total SA and Royal Dutch Shell PLC, two of Europe's biggest energy companies — claims that were promptly rejected by the sellers.

The likelihood is that many other force majeure notices have been served by Chinese LNG buyers in recent weeks.

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