

## Andreas Silcher in LNG Industry: Looking to the Future

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

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A lot has been written in recent years about the commercial, financial and legal implications of the shorter-term charter parties, which are now prevalent in the liquefied natural gas (LNG) sector. This was originally a product of the emerging spot market, but today it is not unusual even for 'project vessels' to be chartered for a term of five to seven years. Although LNG sale and purchase agreements and offtake agreements may be more flexible than in the past, they will often still be for a longer term than the corresponding ship charter.

Some shipowners have therefore expressed the view that they are assuming a disproportionate element of the project's commercial risk. The reasons for this development are manifold, but to some extent it is due to modern accounting principles, which oblige charterers to reflect the aggregate hire due for the firm term of a charter as a liability on their balance sheets – a burden charterers are naturally keen to avoid.

It is easy to understand the exposure of an owner who orders a newbuilding with an expected life of 30 years on the back of a seven-year charter. Owners and financiers get some comfort from residual value calculations, but these are a tricky business in LNG because of the very limited secondhand sale and purchase activity in this sector.

Excerpted from *LNG Industry*. To read the full article, click [here](#). (Subscription required)