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Long-term LNG contracts: A threatened species?

The demise of long-term LNG contracts has been foretold many times, but they still remain at the core of the business. One of the main reasons for this is that, with few exceptions – LNG Canada perhaps being one such – investors, whether equity holders or lenders, still require long-term contracts to be in place for the large majority of the capacity of the plant before final investment decision (FID) is taken. By their nature, long-term contracts are relatively inflexible, which raises the questions of how, or whether, contracts can cope with the triple whammy currently hitting the LNG business, with an oil price crash combining with a Covid-19 induced demand reduction on top of the already existing LNG glut. It also raises the question of whether the current crisis may catalyse changes which might have longer-term impacts on the LNG industry's contractual structure.



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