SQUIRE PATTON BOGGS

2024 Year in Review

Natural Gas and Liquid Natural Gas (LNG)

Global – January/February 2025

In 2024, the natural gas and LNG markets continued to endure the knock-on effects of the acute supply and price volatility experienced in 2023. While supply and demand dynamics stabilised relative to the prior year, markets remained fragile with ongoing geopolitical tensions, changing energy policies, severe adverse climatic disruptions, and new contracting behaviours fuelling continued variability and unpredictability in market dynamics.

For many, these events presented a wealth of opportunities. For others, however, they created great uncertainty, instability, and expense. As we now reflect on the last 12 months, security of supply remains a fundamental issue for market players, together with maximising opportunities along gas and LNG value chains through price negotiation and enhanced flexibility.

This piece provides summaries of the various specific market events that took place in 2024 that, together, tested the elasticity of global energy markets, and the contractual arrangements that operate within them.

Russian Pipeline Gas – Reverberations Continue

Although Gazprom Export first cut off gas to certain European customers in mid-2022, and then more broadly later that same year, reverberations of these gas cuts were still felt throughout 2024.

Over the course of 2022 and 2023, multiple European gas buyers commenced arbitration against Gazprom Export—some in relation to currency issues and some in relation to gas cuts. In numerous instances, Gazprom Export then brought Russian court proceedings against these European buyers, seeking to restrict any foreign arbitral proceedings against it and impose fines on the arbitration claimants if they proceed.

This section discusses some of the most notable publicly available developments from the Gazprom Export arbitrations in 2024.

Developments in Legal Proceedings

Uniper – German gas importer Uniper announced in 2022 that it had initiated a Stockholm-seated *ad hoc* arbitration against Gazprom Export. After Gazprom Export's failure to deliver gas to Uniper under the parties' long-term contracts, Uniper reported that it had to procure gas for its customers through other, more costly, means.[1] Throughout 2022, because of the gas cuts and resulting market speculation, European gas prices hit record highs, such that the replacement gas came at a cost many times higher than the price that would have been paid under the Gazprom Export contracts. The resulting financial stress this put on Uniper led to the German federal government stepping in to take over ownership of Uniper to avoid insolvency.[2]

In March 2024, Gazprom Export secured an anti-arbitration injunction in Russia ruling that Uniper would be fined €14.3 billion (the amount of Uniper's claim against Gazprom Export in the arbitration) if it continued with the arbitration.[3]

Uniper reported that on 7 June 2024, the tribunal in the arbitration awarded Uniper both the right to terminate its long-term gas contracts with Gazprom Export and damages in excess of €13 billion for gas volumes not supplied since 2022.[4] Uniper has now terminated its long-term contracts with Gazprom Export. As a point of reference, more than 50% of Uniper's gas portfolio came from Gazprom,[5] and those volumes were in excess of 20 bcm, or approximately 20% of Germany's entire volume of gas imports in 2021.[6]

What comes next in these proceedings is unknown. Uniper may seek to enforce the arbitral award in jurisdictions where Gazprom Export has assets, but meanwhile Gazprom Export has a Russian court judgment against Uniper for the same or greater value, which it might also seek to enforce, at least within Russia. News reporting indicates a concern about which jurisdictions LNG ships may be located in.[7]

1 https://www.uniper.energy/news/uniper-terminates-russian-gas-supply-contracts

2 https://www.reuters.com/markets/deals/germanys-uniper-gets-15-bln-eur-state-bail-out-avert-collapse-2022-07-22/

3 https://globalarbitrationreview.com/article/uniper-reports-eu13-billion-win-against-gazprom

4 https://www.uniper.energy/news/uniper-terminates-russian-gas-supply-contracts

5 https://www.uniper.energy/news/update-on-unipers-russian-activities-and-way-forward

6 https://www.statista.com/statistics/703657/natural-gas-consumption-germany/

7 https://www.ft.com/content/30b32880-f1a0-4198-b277-244fb22b7397

OMV – The trading arm of Austrian gas importer OMV initiated ICC arbitral proceedings against Gazprom Export in January 2023, regarding cuts to its gas supply under the parties' contract. As with the Uniper case, Gazprom Export obtained an anti-arbitration injunction against OMV from a Russian court, with a threatened €575.2 million fine if OMV continued with the arbitration.[8]

On 13 November 2024, OMV announced that the tribunal had awarded it damages amounting to €230 million, plus interest and costs. OMV said that it would take steps to recover those damages and set-off the amount "with immediate effect against payments to be made by OMV to Gazprom Export under its Austrian gas supply contract".[9] In that same announcement, OMV noted that it expected its contractual relationship with Gazprom Export could deteriorate as a result, including a potential halt of gas supply. Gazprom Export promptly suspended gas deliveries to OMV.

On 11 December 2024, OMV announced that it had terminated its long-term gas supply contract with Gazprom Export with immediate effect because of "multiple fundamental breaches of contractual obligations", including the lack of deliveries since 16 November 2024.[10]

Others – Numerous other gas importers have initiated arbitration against Gazprom entities arising from the 2022 gas cuts. Many of those arbitrations are still in progress. Gazprom Export has gone to Russian court several times to obtain anti-arbitration injunctions against these companies.

Takeaways– Despite Gazprom Export having routinely sought anti-arbitration injunctions in Russian court against buyers who have commenced arbitration, these arbitrations over Gazprom Export's underdeliveries have proceeded. This shows the important role of arbitration and arbitration clauses in contracts. Many of these proceedings involved termination of the contracts with Gazprom Export, Gazprom Export ceasing all deliveries, or both. This highlights the critical importance of securing alternative, non-Russian sources of supply.

Replacement Sources: LNG in Europe

Long dependent on pipeline gas flows from Russia, LNG is now entering a new era in Europe. A raft of new import terminals has gone up in Germany and the Netherlands, along with floating storage regasification units (FSRU) there and elsewhere. Since the conflict in Ukraine began, Europe has added 58.5 bcm of regasification capacity,[11] and its import capacity for LNG is predicted to grow to 350 bcm by the end of this decade.[12] As a point of comparison, Russian gas imports to Europe were approximately 150 bcm in 2021.[13]

With fears about supply security looming, many of the LNG regasification structures went up quickly, with several contracts being signed, sealed and delivered at top speed. This raises a host of questions for a later date, including how these terminals will operate, and whether the rapid proliferation of LNG importing infrastructure will shortly come into conflict with the EU's climate goals.

Since the start of 2024, the EU's Emissions Trading System (EU ETS) now covers CO2 emissions from all large ships, including those transporting LNG. Beginning in 2026, the EU ETS will also cover methane and nitrous oxide emissions.[14] Starting from 2025, shipping companies will have to surrender allowances for 40% of their emissions reported in 2024. This percentage will continue to rise as time passes.[15]

Nevertheless, the German *dunkelflaute* at the end of 2024 has shown that despite the proliferation of renewable energy sources and the push for decarbonization, there is and will continue to be a significant role for natural gas in power generation.

Sanctions Developments

In the immediate wake of the Russian invasion of Ukraine in early 2022, US sanctions banned the import of Russian oil, LNG, and coal into the US. EU sanctions, however, did not ban the import of Russian natural gas, which continued to form a significant portion of Europe's energy supply until mid-2022.

By late 2023 and again from mid-2024, the US enacted sanctions in relation to Russia's Arctic 2 LNG project. Shortly thereafter, the EU enacted a package of sanctions prohibiting transshipment of Russian LNG at EU ports.

8 https://www.reuters.com/business/energy/russian-court-bans-austrias-omv-non-russia-arbitration-against-gazprom-tass-2024-05-22/

9 https://www.omv.com/en/media/press-releases/2024/omv-successfully-receives-arbitral-award-in-relation-to-its-german-gas-supplies-from-gazprom-export

10 https://www.omv.com/en/media/press-releases/2024/241211-omv-announces-termination-of-austrian-supply-contract-with-gazprom-export-with-immediate-effect

11 https://ieefa.org/european-lng-tracker-september-2024-update

12 https://maritime-executive.com/magazine/terminal-trouble-is-the-eu-building-too-many-regasification-terminals

13 https://www.consilium.europa.eu/en/infographics/eu-gas-supply/#0

14 https://climate.ec.europa.eu/eu-action/transport/reducing-emissions-shipping-sector_en

15 *Id.*

How Are US Sanctions Impacting Russian LNG projects?

The target of US sanctions has largely been the Russian Arctic 2 LNG project. Arctic 2 originally had a design capacity of nearly 20 million metric tonnes of LNG per year, but that capacity was substantially reduced. Current news reporting suggests that the project has stopped liquefaction and production of gas from the gas fields. In a dollar-based economy, prospective buyers may be deterred by the threat of secondary sanctions for interacting with sanctioned entities, or indirectly assisting with sanctioned activities.

An ongoing issue for the Arctic 2 LNG project is the unavailability of Arctic class LNG tankers for winter operations. In the summer of 2024, shipments of LNG from the project started with the use of a shadow fleet of conventional second-hand LNG tankers. However, at the end of August, those seven ships were identified and put on a SDN list (Specially Designated Nationals and Blocked Persons) by the US, along with the three entities they were registered under in China, India, and the UAE.[16]

On 5 September 2024, the US Office of Foreign Assets Control (OFAC) imposed sanctions on two LNG tankers—and the two shipping entities that manage them—that were suspected of reloading cargos from the earlier sanctioned LNG tankers that called at the Arctic 2 LNG project.[17] These actions have impacted transport distances for Russian LNG and complicated its potential trading market.

The Start of EU Sanctions On Russian Gas

Following Russia's invasion of Ukraine in 2022, Europe's import of Russian gas dropped precipitously. While Russian pipeline gas supplies to Europe plummeted, however, Russian LNG imports into Europe increased in 2024, compared to 2023.[18] This is predominantly the result of existing large-scale LNG plants under Russian ownership—Yamal LNG and Sakhalin LNG—that have not yet been subject to US/EU sanctions. These projects have therefore largely been able to continue operations, soaking up the demand left dry by the pipeline gas cuts.

In June 2024, the EU adopted its first-ever sanctions measures targeted at Russian LNG. The measures, which will take effect in March 2025, are designed to impact gas deliveries by halting the transshipment of Russian LNG. Specifically, the measures prohibit:

- The transshipment of Russian LNG through European ports to non-European countries (or, in other words, the re-export of cargos being delivered to international markets)
- The import of Russian LNG through terminals that are not connected to the European natural gas system
- The provision of goods, technology or services for the completion of Russian LNG projects

Transshipment of Russian LNG occurs when Russian LNG cargos arrive at LNG terminals in Europe and are transferred from icebreaker carriers to conventional LNG vessels. This facilitates the transit, sale and delivery of Russian LNG to non-European countries.

The immediate result of these new measures will see transhippers of Russian LNG being pushed out of European ports and needing to find other ways of delivering Russian LNG to non-European destinations. With European ports off-limits, this will complicate the path for Russian LNG to reach non-European countries—such as China or India. These new measures are likely to impact future operations at Arctic 2 and Yamal LNG.

There are knock-on effects from these sanctions as well. Energy companies that are unable to satisfy their contractual obligations because of sanctions may find themselves in a legal tangle, depending on the language in their contracts.

Similarly, European terminals and transhippers may face disputes, or lose business altogether, if they refuse to accept cargos under the new regulations. For example, the Institute for Energy Economics and Financial Analysis reports that from January to September 2023, the volume of LNG arriving at Zeebrugge Terminal in Belgium from the Yamal LNG project was double that of the volume actually imported.[19] That is, 50% of LNG arriving at Zeebrugge from Yamal was transhipped, and 90% of those transshipments went to non-EU countries.[20] What will happen when the transshipment ban goes into effect?

US LNG – A New Role For The Future And New Questions Raised

The US is currently the world's largest exporter of LNG, with the greatest LNG export capacity of any country worldwide. When Russian gas supplies to Europe dropped, US projects were there to replace some of that production.

However, in 2024, the focus on the US LNG market was not just about how much LNG was being produced and where that LNG was going. There were also queries regarding how and when new projects come online. This has raised several legal issues in connection with the commissioning and operation of new projects, issues that buyers are likely to examine closely when contracting with new projects.

16 https://www.oxfordenergy.org/wpcms/wp-content/uploads/2024/10/Arctic-LNG-2.pdf, p. 11.

17 https://www.oxfordenergy.org/wpcms/wp-content/uploads/2024/10/Arctic-LNG-2.pdf, p. 12.

18 https://www.ft.com/content/ef4230c1-befa-4053-97b2-397c69c20002

19 https://ieefa.org/resources/eu-turns-blind-eye-21-russian-lng-flowing-through-its-terminals

20 *Id.*

Can US LNG Replace Russian Flows to Europe?

While Europe has become increasingly reliant on LNG—including US LNG—over the past two years, for much of 2024, certain European countries, particularly Slovakia, Hungary, Greece, and Austria,[21] still purchased, and were dependent on Russian gas. In 2024, Russian gas continued to flow to Europe through the Sudzha interconnection point on the border with Ukraine.

However, the end of 2024 marked the expiration of the Russia-Ukraine gas transit agreement. In December 2019, Russia and Ukraine entered a five-year gas transit and interconnection deal, which allowed Russian gas to flow to Europe via Ukraine. The agreement was set to expire at the end of 2024, and Ukraine asserted that it would not extend the agreement. Ukraine's Prime Minister, Denys Shmyhal, expressed Ukraine's goal to impose sanctions on Russian gas infrastructure and deprive the Kremlin of profits to finance the ongoing war. Ukraine instead urged all European countries to abandon oil and gas from Russia.[22] The last weeks of 2024 were dominated by speculation about whether there would ultimately be an extension of the transit agreement, or some other kind of work-around to continue transiting Russian gas through Ukraine into Europe. However, 31 December 2024 came and went with no solution. As of January 2025, Russian gas no longer flows to Europe through Ukraine, marking the end of a supply route in use since the early 1990s.[23]

US LNG exports to Europe jumped significantly in 2022 and 2023 as Europe rushed to replace lost Russian gas by whatever means necessary. This, however, changed in 2024 following the increase in power generation from renewable energy sources in Europe. Although the US was the largest exporter of LNG in 2024, exports to Europe in 2024 dropped in comparison to 2023.[24]

US export projects will likely continue to feature heavily in Europe's gas supply. While the EU has not banned the import of Russian gas or Russian LNG (only its transshipment), European Commission President Ursula von der Leyen has suggested that the US could step up by supplying even greater amounts of LNG into Europe to replace Russian imports because it is "cheaper, and brings down [Europe's] energy prices".[25] She added that the EU's future approach to trade policies with the US will be to engage, look at common interests, and negotiate.

What Does Trump Mean For US LNG?

At the start of 2024, the Biden-Harris administration announced a temporary pause on pending applications on LNG exports to non-Free Trade Agreement countries.[26] This was part of the White House's climate agenda and bid to ensure that America "leads the clean energy future".[27] Without these export permits, developers were unable to move forward with construction plans for new projects. This has meant that various projects, such as Commonwealth LNG, Venture Global's CP2 LNG, and Energy Transfer's Lake Charles LNG, have all experienced delays.

During US President Trump's 2024 presidential campaign, he asserted that he would end the Biden-Harris administration's freeze on LNG export permits, and promised to issue export licenses after taking office. After taking office, on 21 January 2025, President Trump issued an executive order ending the moratorium.[28]

This means that LNG developers who had pinned their hopes on President Trump's pledge to reverse the licensing pause, which froze projects and lost contracts, can now proceed with their projects.

This change to domestic policies to increase oil and gas production, however, may not have the desired impact. In his presidential campaign, President Trump also pledged to impose a 20% tariff on all non-Chinese imports and a >60% tariff on Chinese goods. He also threatened tariffs on other US trade partners. It is impossible to predict what counteractions may arise from these measures, if they are ultimately implemented.

Asian Gas And LNG Trends

In Asian gas and LNG contracts, 2024 saw an ongoing shift towards portfolio-centric assessment rather than strict contract-by-contract reviews. This portfolio standpoint has led to more contested negotiations and disputes over non-price terms, together with a greater willingness to resolve price disputes by trading and negotiating contractual non-price terms. Similarly, the long-term relationship aspect of traditional contracting, which kept the number of disputes in the Asian gas and LNG market low for many years, appears to be shifting toward a more transactional approach, where costs and benefits on a portfolio basis may now rule the day.

21 Gazprom cut supply to Austria's OMV in mid-November 2024 after OMV obtained a favorable arbitral award and moved to set it off against outstanding gas payments. *See https://www.reuters.com/markets/commodities/austrias-half-century-bond-with-gazprom-ended-by-gas-seizure-sources-say-2024-11-25/*

22 https://newsukraine.rbc.ua/news/slovakia-supports-ukraine-s-eu-membership-1728308480.html

23 https://www.bbc.com/news/articles/c4glyjx9m71o

24 https://www.reuters.com/business/energy/us-keeps-its-lng-exports-crown-even-luster-fades-maguire-2024-12-17/#:~:text=For%202024%20as%20a%20whole,since%202021%2C%20according%20to%20Kpler.

25 https://news.bloomberglaw.com/international-trade/eus-von-der-leyen-suggests-us-lng-could-replace-russian-supply

26 The USA has free trade agreements in place with 20 countries.

27 https://www.energy.gov/sites/default/files/2024-06/002.%20White%20House%2C%20Fact%20Sheet_%20Biden-Harris%20Administration%20Announces%20Temporary%20Pause%20on%20Pending%20Approvals%20of%20Liquefied%20Natural%20Gas%20Exports.pdf

28 https://www.reuters.com/business/energy/us-lng-projects-boosted-by-trumps-export-permit-restart-2025-01-21/

Not Just Price Anymore

As the name suggests, price review negotiations typically focus on amending the contract in one material respect: price. This has traditionally meant that price reviews end in a win-lose situation, with parties battling against each other to preserve their own, competing, commercial interests.

However, in the context of an uncertain and volatile LNG market, 2024 saw parties increasingly turn to more creative solutions to resolve their price negotiations and disputes. With ample opportunities to derive value from long-term contracts outside of just the headline price, price negotiations in 2024 often involved parties looking at their wider portfolios to see what strategic advantages can be gained in other ways, evaluating the value of flexibility in a particular contract to enhance value and opportunity within that company's portfolio.

It is not possible to say which precise trade-offs were increasingly made because the details of negotiated outcomes are typically confidential, no two energy companies have identical interests or portfolios, and certain contractual terms will be more valuable to one party than another depending on its portfolio and supply/delivery profile. However, it remains the case that the value of LNG contracts is no longer just about price: parties appear to recognise there is significant value in other flexibility terms that they can capitalise on in price review negotiations—for example, flexibility regarding cargo size, ship size, gross heating value and loading and receiving ports.

While this does not represent a development in and of itself, the heightened focus puts a new emphasis on quantifying the value of non-price terms in a price review context and the approach in preparing for, and participating in, price review discussions. If one party is not able to identify and quantify value, it puts them at a competitive disadvantage. Parties are therefore increasingly engaging in more strategic and quantitative analysis—often with external legal and economic assistance—prior to entering in negotiations with their counterparties, to consider if there are other unconventional outcomes which would be beneficial for their portfolio as a whole.

Trading Handshakes For Optimisation

Historically, the focus in large, complex, long-term LNG contracts in Asia has been on price and intrinsic value. This has allowed express flexibility rights—such as volume or destination flexibility provisions—to be incorporated into these kinds of agreements without necessarily accounting for their significant worth.

However, the rising influence of mid-market trading houses from the mid-00s onwards, together with significant price volatility since 2022, has sparked an evolution in putting a value to these types of flexibilities. Now, large portfolio players are alive to the considerable value they can extract from, for instance, the ability to lift from and then divert cargos to different geographical regions, or delay or expedite volumes based on the prevailing market conditions.

With the LNG market now well-versed in negotiating for express flexibilities, which can include downward or upward quantity rights or diversion rights, the way in which market participants relate to one another is also evolving. Increasingly, parties are seeking to capture value not only from express contractual flexibility rights, which are typically clearly labelled as such in the contract but are also seeking to optimise value anywhere in the contract it can be found. This might include:

- Operationally-focused provisions, including (but not limited to) clauses relating to quantity, scheduling, vessel changes, and delivery tolerances—or a combination of the above—as additional volume flexibility. Typically, the value of these provisions is greater if they can be exercised closer to the scheduled cargo delivery date. The ability to use these provisions in a particular way of course depends on the specific language of the contract in question.
- Liquidated damages provisions, which sellers use as a backstop on their liability for defaulting on their contractual obligations in circumstances where they elect to reduce deliveries—or altogether fail to deliver—under a long-term contract when the prevailing spot or short-term price is higher. In other words, sellers may opt to default on their long-term contractual obligations, where they know that they will recover more in the short-term market compared to what they will be liable for under the liquidated damages provision of their long-term contract. Again, how and when this might happen will depend on the relevant contractual language.

These developments are important from the perspective of both buyers and sellers. Some considerations include:

- Are these undefined flexibilities limited in any way, for example, by timing restrictions, scheduling requirements, or logistical provisions? Or by any other contractual language?
- What recourse does one party have if it thinks the other is breaching the contract?
- Are the contractually agreed damages sufficient in the new market environment?
- Does this conduct permit a party to terminate the contract?
- Does this conduct amount to wilful misconduct, or gross negligence under the language of the contract or the applicable governing law? If so, what type of damages would this give rise to?
- What impact will this conduct have on the parties' relationship, or on one particular party's reputation in the market more broadly?

Professionalisation of Data Providers

It is no secret that energy transactions are often highly confidential. In fact, nearly all long-term LNG contracts will contain confidentiality provisions. These confidentiality provisions tend to restrict any information regarding the existence or contents of the agreement from being disclosed to third-parties. However, information about these kinds of contracts is very valuable, particularly because price review clauses often benchmark a contract's price against that of other similarly situated contracts.

Accordingly, over time, various companies have emerged which purport to provide data and business intelligence and insight on the energy market. These companies are often referred to as data vendors, data aggregators, or data providers.

Data providers have become particularly useful in the context of Asian price review negotiations and arbitrations, where contracts are often not indexed to a publicly available price marker, such as a hub price. They offer parties, or their appointed experts, a window into the contractual terms of other contracts. Most importantly, they offer information about prices.

Previously, data providers were aggregators of information and data from the market who were paid purely to provide those insights to customers. This meant that there were two clearly delineated roles in price reviews—one for data vendors who provided the information, and another for industry experts who would interpret the data and apply it to the price review clause.

Increasingly, however, data providers are offering analytical services to crunch and refine the data they provide. This tends to shift the landscape in terms of roles. As data providers seek to expand their business, energy companies who previously only subscribed to their data platforms may need to pay additional fees in order to use that data in a price review arbitration, a price that could be offset by using the data provider as a data analyst as well. In the future, this may raise issues regarding independence of roles and the cost benefit of external assistance.

Conclusion

As this piece highlights, market dynamics remain relatively fragile as we step into 2025. Such dynamics may be exacerbated by ongoing geopolitical tensions, thereby provoking further price volatility. Sensitivity in supply profiles, shipping disruptions along major trade routes, and an uptick in inclement weather impacting key supply facilities will likely continue to play a role in gas and LNG portfolio and contract management over the next 12 months. These events and new contracting behaviours have shone a spotlight on the possible susceptibility to further disruptions in LNG contracting in what has become a truly interconnected global trading platform. A good understanding of the issues raised above is therefore critical for market players seeking to ensure supply security and maximise trading.

The authors of this piece are involved in advising on a number of these issues at the present time in the European, US, and Asian markets, specifically:

- Price review strategy development, negotiations, and arbitrations
- Hardship and change of circumstance negotiations and arbitrations
- Underdelivery disputes
- Force majeure claims and defences
- Missed cargo disputes and wilful misconduct issues
- Portfolio review and optimisation to assess volume and destination flexibility tolerances.

If you have any questions regarding the subject matter of this bulletin, please contact the authors.

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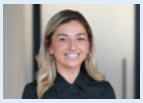

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