Gas Strategies

A practical guide to commercial risk management in LNG

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Executive Summary

Risk in LNG is not inherently unmanageable; but it becomes value destructive when commercial risks are identified too late, poorly quantified, or ineffectively allocated.

Across the LNG value chain, commercial obligations are tightly interdependent, yet often structured and governed in isolation. This mismatch allows local disruptions to cascade into multi-counterparty failures, driving liquidity stress, operational bottlenecks, and disputes.

Successful LNG strategies therefore start with value chain-wide risk mapping, deliberate risk allocation to the party best positioned to manage it, and contract designs grounded in operational reality. Scheduling volatility, flexibility rights, price exposure, and disputes are not minor considerations but design conditions that must be anticipated and engineered into commercial frameworks.

Organisations that embed risk allocation, operational resilience, and dispute preparedness into their commercial architecture are consistently more bankable, deliverable, and value accretive. Risk is unavoidable in LNG; failure to design or prepare for it is not.

Introduction

Risk across the LNG value chain – from projects to portfolios – is often described as "complex," "multidimensional," or "inherent to the industry." Whilst true, these descriptions don't help traders, developers, or investors reduce risks or manage them effectively.

There is a simpler and more incisive truth: the LNG business fails when commercial risks aren't identified early, quantified properly, and mitigated or allocated effectively through well-designed commercial mechanisms. Technical risk, while real, is well understood and rarely the cause of failure. Commercial risk is.

This guide breaks down some of the major commercial risks in LNG, how they materialise across the value chain, and how to design risk management frameworks that keep the LNG value chain bankable, deliverable, and resilient.

LNG risk is value chain risk

Unlike most energy value chains, LNG's commercial commitments are tightly interdependent across five segments:

1. Upstream supply (production and transportation)
2. Liquefaction
3. Shipping and marine logistics
4. Regasification
5. Downstream market

But commercial contracts – or the organisations that are responsible for them, and which may operate across more than one of these segments – can sometimes treat these segments separately. However, risk propagates across the chain, turning a local issue into a multi-counterparty commercial event.

Why this matters

If your commercial structures don't acknowledge these interdependencies, you may face:

- Conflicting obligations between upstream, midstream, and downstream contracts
- Misaligned flexibility and tolerances
- Disputes over responsibility for management of scheduling, deviations, or delays
- Liquidity and credit exposure caused by mismatched contracts
- Operational bottlenecks created by unrealistic commercial terms

For example, if you're an LNG export project managing multiple offtakers or multiple upstream supply sources, a lack of cross-value chain thinking means you will be the one to suffer the consequences if something goes wrong (i.e., if an offtaker's ship is delayed or if there's an upstream outage) and the management structure isn't in place to deal with it.

Actionable fix

To protect yourself, build a value chain-wide risk map that identifies risk origin, risk cascade effects, commercial

impact, financial exposure, mitigation responsibility, and any contract clauses governing the risk.

This should be done as a baseline activity in commercial design and before agreements that underpin the value chain are negotiated. It is not an afterthought.

Shift from risk identification to risk allocation

Many LNG projects and organisations have large risk registers – though even then some organisations may only create these registers as a matter of process, and don't actively consult them during day-to-day activity.

For them to be useful as tools, they need to remain relevant in the business and embedded in its commercial framework. Otherwise, well-intentioned attempts to stay on top of risk can lead to allocation failure.

In LNG contracting, risk allocation is ultimately driven by the value each party assigns to that risk and the cost of managing any resulting asymmetry. Risks are not simply mitigated or shifted; they are priced, negotiated, and optimised. For example, if the price impact of a longer laycan is excessive, a buyer may prefer a shorter laycan to secure a price advantage while retaining the timing risk and managing it through additional shipping length or portfolio flexibility. In this sense, LNG risk management follows three broad approaches: risks are either taken (accepted), transferred (contractually), or treated (mitigated) through operational and commercial means. Contractual outcomes then reflect relative risk valuations rather than absolute risk levels.

Actionable fix

For every single commercial risk in the register, ask:

"Which party is best positioned – commercially and operationally – to manage and mitigate this?"

Then, structure the contract accordingly. The right allocation reduces cost (increases profitability), increases deliverability, and reduces the likelihood of disputes.

Design for scheduling and operational volatility

Scheduling is where LNG commercial risk becomes most tangible. Disrupted upstream operations, adverse weather and metocean conditions, congested shipping corridors, terminal outages (export and import), and unexpected demand drops can cascade into contractual breaches.

Common commercial failures in scheduling can include:

- Scheduling windows not reflecting actual storage and shipping constraints
- Unrealistic assumptions about weather, canal transit, or port congestion
- Poorly defined nomination processes
- Unclear responsibilities around deviations or missed laycans

Actionable fix

Scheduling provisions should be built in a way that reflects real world operations, not theoretical patterns.

- Operational data can be used to validate feasible scheduling windows
- Buffer capacity – a planning margin, with reserved unallocated capacity – can be built into nomination cycles
- Communication and escalation mechanisms should be standardised and centralised – with all contractual counterparties managed on an integrated basis – so that the cascade effects of disruptions on other counterparties are considered

Put commercial flexibility in its proper place

Flexibility creates value, and the processes, tools, and capabilities need to be in place to ensure that flexibility rights are actually exercised to capture more value when opportunities arise. However, this only occurs when flexibility provisions are well-structured and operationally deliverable. Poorly designed flexibility is a big source of risk and dispute.

Flexibility goes wrong when:

- Buyers ask for flexibility that suppliers cannot operationally support
- Sellers offer flexibility that undermines their asset(s) operations
- Diversion rights conflict with shipping or terminal constraints
- LNG sale volume flexibility creates imbalances with respect to upstream gas procurement

Actionable fix

Design flexibility provisions as a commercial commodity, where it is priced-in transparently and is consistent with operational realities (including plant operating boundaries and shipping capabilities). Flexibility scenarios can be stress-tested as part of a wider operational readiness programme, which ensures the flexibility offerings are possible and the organisation has the understanding to act on them correctly.

When flexibility works, it is one of a contract's greatest assets. When it doesn't, it's the fastest path to conflict.

Treat price exposure as a risk, not a feature

Commodity price exposure in LNG is unavoidable, but unmanaged cross-commodity exposure is a risk multiplier.

Failure to manage the risks associated with commodity price exposure can manifest in multiple ways:

- Indexation that doesn't match the downstream market
- Hybrid indexation structures without hedging logic

- Inconsistency between contract prices and the needs of the project (from a cash-flow and debt repayment perspective)

- Price review clauses that trigger disputes instead of resolution

Actionable fix

This doesn't mean that you should seek to minimise your exposure to commodity prices or avoid the potentially highly valuable benefits of cross-commodity exposure. But risk should be managed with a structured playbook:

- Build transparent, data-driven price review mechanisms with clear conditions, boundaries, triggers, and escalation pathways

- Design a clear hedging strategy that takes into account all your price exposures and with a process in place to update hedging positions on an as-live basis

- Consider the bankability requirements of whatever unpins your economics – do you have lenders that require predictable revenue streams?

- If you're buying LNG as an end-user, align indexation with the actual consumption markets

A contract that anticipates price shifts is far more resilient than one that resists them.

Build dispute preparedness into your commercial structure

Disputes are not exceptional events in LNG – they are a natural part of a 15-20 year commercial relationship. However, historically these disputes were managed between long-term counterparties as part of the normal process of managing ongoing relationships. Going to external dispute resolution was a sign of a breakdown in relations.

But in recent years, increases in the number of players and diversification in the types of players have led to a breakdown in traditional, relationship-led approaches. Add in the extremely volatile nature of the market (influenced as much by unpredictable external events, rather than predictable economic decision-making) which has drastically increased the potential rewards (and corresponding losses) of deviating from contractual terms. This has partly contributed to a shift in Force Majeure from being a declaration of last resort to an (admittedly extreme) commercial tool.

In supporting clients in strength of case assessments and by acting as expert witnesses, we've seen where a lack of preparedness hinders the smooth handling of disputes.

The likelihood of a commercial dispute may have actually been increased by the contract outcome that is negotiated: perhaps through a misalignment between contract terms and actual operating parameters; poorly defined scheduling rights; ambiguous pricing or indexation mechanics; or mismatched obligations across the value chain.

Then, organisational deficiencies in contract management – a lack of consistent and centralised data recording, siloed management of individual contracts, weak knowledge transfer and succession planning – only compound the problem once a dispute arises.

Actionable fix

Contracts should be designed with anticipation of what can go wrong in mind. You can seek to reduce the risk of disputes arising by ensuring tight and robust agreements that reduce opaqueness.

But not everything can be anticipated. That is why a strong dispute mitigation and resolution process architecture needs to be built in parallel – you can't wait until there's a problem. This includes clearly defined responsibilities, structured escalation pathways, technical and commercial working groups, and "early warning" mechanisms that catch issues before they escalate

Conclusion

Commercial risk in LNG is not something to be reacted to; it must be designed for, allocated properly, monitored continuously, and governed rigorously.

Businesses that succeed are not the ones with perfect strategies; they are the ones with commercial structures built to absorb shocks, align counterparties, sustain performance, and capture value across the entire LNG value chain, even when market circumstances are tough.

Risk is unavoidable.

Poor commercial design or preparedness is not.

Cautionary note: The points outlined here are intended only as high level indicators of the types of issues that may arise. Every project, seller, and buyer will face circumstances that differ significantly, and the considerations relevant to one situation may not apply—or may apply very differently—to another. Accordingly, this Perspective should not be regarded as comprehensive guidance, nor should it be relied upon as a basis for action without obtaining qualified, experienced professional advice. Engaging advisors with the appropriate expertise is essential to ensure that all relevant risks, requirements, and commercial implications are properly assessed.