

# How to structure LNG SPAs and GSAs for volatile markets

Perspective  
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## Introduction

Market volatility has become the defining feature of global LNG trade – pricing swings, shifting trade flows, portfolio reshuffling, evolving demand centres, and geopolitical uncertainty. In this environment, the LNG Sales and Purchase Agreement (SPA) or Gas Supply Agreement (GSA) are no longer static legal instruments. It is a dynamic risk management tool and its structure can either create resilience or amplify exposure.

This Gas Strategies Perspective lays out the essential principles for structuring SPAs and GSAs that can survive – and even thrive in – today's volatility. However the complexity arises, where the interests of a liquefaction project/seller and buyer are in conflict, experienced understanding and negotiation across combinations of contract terms are essential to optimise value and risk so that the deal gets done.

## Indexation: Beyond oil and JKM

Traditional oil linked indexation in LNG SPAs still exists, but buyers and sellers increasingly require hybrid structures, and sentiment changes with market conditions and expectations. No indexation choice should be based on convention – it must reflect market exposure, portfolio needs, and project economics.

### Key considerations:

- Matching indexation to the buyer's downstream market or portfolio.
- Ensuring the project's revenue profile, including indexation, aligns with financing needs.
- Diversifying indexation to manage structural risk.
- Considering seasonal spreads and regional basis volatility.

### Best practice:

Design indexation based on analysis, not assumptions. A good SPA hedges market exposure – not amplifies it.

## Flexibility: The new currency of LNG

Flexibility has become one of the most valuable features in LNG contracts: volume flexibility, destination flexibility, scheduling windows, diversion rights, amongst other forms.

But flexibility also increases operational complexity and risk for suppliers – and indeed for lenders if it jeopardises, or increases the risks to, reliable revenue streams.

### To structure flexibility effectively:

- Quantify the economic value of flexibility options.
- Link flexibility to operational capability – don't over promise.

- Build clear rules for nominations, diversions, and reallocations.

- Align flexibility with portfolio optimisation strategies.

The best contracts treat flexibility as a priced resource, not an afterthought.

### Volume commitments and take or pay

Take or pay (TOP) remains the backbone of LNG commercialisation. But inflexible TOP terms can destroy value in volatile markets.

### Considerations for resilient TOP structures:

- Dynamic volume bands rather than fixed annual quantities.
- Seasonal flexibility tied to expected market demand.
- Portfolio-level TOP strategies.
- TOP obligations aligned with gas supply reliability or shipping and terminal capabilities.

Remember: TOP is not just risk allocation – it is a portfolio design tool.

### Shipping clauses and delivery terms

Shipping has become a critical source of commercial volatility: freight rates, insurance, congestion, fuel choice, voyage economics, and available tonnage.

Shipping provisions in SPAs must be future proof.

### Recommended structures:

- Be clear on the implications of deemed or indexed shipping rates.

- Define clear risk allocation for delays, diversions, and routing.

- Use realistic scheduling windows based on actual operations.

- Incorporate modern vessel performance requirements.

- Align Incoterms with the seller's and buyer's operational strengths.

Shipping misalignment is one of the hidden causes of commercial disputes – get it right up front!

### Price review mechanisms

For oil indexed contracts, price reviews are increasingly frequent, contentious, and economically significant. They are also potentially onerous processes for buyers and sellers that in recent years have increasingly relied on arbitration to resolve.

### Best practices:

- Define transparent triggers and review windows.

- Include objective market tests (benchmarks, indices) that clearly define what is 'in' and 'out' of the scope of the price review assessment to reduce ambiguity.

- Establish structured negotiation frameworks.

- Build escalation pathways for unresolved reviews.

A strong price review clause is a strategic advantage – not just a legal safeguard.

## Conclusion

In volatile markets, LNG contracts must be engineered with precision. A well-structured SPA or GSA can reduce exposure, enhance optionality, secure financing, and improve resilience. The strongest contracts are those that account for how the market behaves, not how we wish it behaved.

In today's environment, contract structuring is not just a commercial exercise. It is a risk management discipline – and a source of competitive advantage for those who master it.

This Perspective has set out Gas Strategies' appreciation of some of the considerations to be addressed in the marketing and contracting of LNG and in related gas supply to projects. In a complex LNG and energy environment, marketers, buyers, and sellers need to have a clear understanding of the issues and to navigate their way through these challenges in their strategies and negotiating tactics.

At Gas Strategies we are your guide, supporting you as you work through the issues and process, hands-on delivering in your counterparty engagement and negotiation.

**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.

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