After the Squeeze: Repricing Long-Term Gas Contracts in a Post-Crisis Market: How Price Reviews Become Disputes and How Experts Resolve Them

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Foreword

Long-term gas supply contracts were designed to provide certainty. In an uncertain industry, buyers secured supplies of natural gas or LNG, while sellers obtained revenue over many years. These stable pricing mechanisms allowed both parties to manage commercial risk despite changing market conditions.

Recent geopolitical developments have challenged many of these assumptions: supply disruptions, changing trade routes, regional conflicts, market volatility, and evolving pricing benchmarks have transformed them into sources of disagreement.

Events affecting global shipping, such as tensions surrounding strategic waterways, illustrate the point. The Strait of Hormuz has highlighted how quickly market conditions can depart from those in place when a contract was originally negotiated.

The question today is not whether prices have changed. The more difficult question is whether the contractual mechanism allows those changes to be reflected fairly, and how experts and tribunals determine the appropriate outcome if the parties cannot agree.

This eBook examines why long-term gas contracts are increasingly becoming the subject of arbitration and litigation, how price review clauses operate, and the critical role experts play.

CHAPTER 1: Why Long-Term Gas Contracts Are Being Repriced

Long-term gas contracts have been the foundation of international LNG and natural gas trade. These agreements give both suppliers and buyers confidence that supply commitments and pricing arrangements will remain commercially sustainable throughout the life of the project.

The logic behind these contracts was simple. Sellers needed long-term revenue certainty to justify the substantial capital investment required for production facilities, liquefaction plants, and export infrastructure.

Buyers wanted reliable, long-term access to gas to meet growing domestic energy needs and support industrial development.

Both sides relied on stability. Yet energy markets rarely remain unchanged for decades. Shifts in global demand, the emergence of new sources of supply, evolving pricing benchmarks, and unforeseen geopolitical developments have all reshaped the commercial landscape.

Pricing mechanisms that once reflected commercial reality may no longer produce fair or economically sustainable outcomes as market conditions evolve.

Many long-term gas contracts have, as a result, become the subject of renegotiation, contractual price reviews, or formal dispute resolution proceedings.

Why have disputes increased?

The increase in disputes is not simply the result of rising or falling prices. Disputes arise because the parties disagree on whether market conditions have changed sufficiently to justify revising the contract price.

Common sources of disagreement include:

- Significant movements in international gas prices
- Regional market disruptions
- Changes in LNG trading patterns
- Geopolitical instability affecting transportation routes
- Shifting relationships between oil-linked and gas-linked pricing

The commercial impact of even small pricing adjustments can be substantial when contracts involve millions of dollars in annual value.

Why certainty becomes difficult

Long-term contracts attempt to provide certainty in an industry that is inherently uncertain.
No party negotiating a fifteen-year agreement can accurately predict future conflicts, technological developments, or shifts in global energy markets.

Disruption to strategic shipping routes or regional conflicts can change market conditions despite never having been discussed when the agreement was signed.

This creates tension between contractual certainty and commercial reality.

KEY TAKEAWAY

Long-term gas contracts are designed to provide stability, but changing market conditions can challenge the assumptions on which those agreements were originally negotiated. Price review disputes occur when parties disagree on whether changes justify revising the contract price.

CHAPTER 2: From Price Certainty to Price Disputes

Price is the most heavily negotiated aspect of a long-term gas contract. It determines the commercial value of the agreement and how market risk is shared between buyer and seller. It provides predictability and is meant to reflect the commercial realities of the market.

The difficulty is that markets do not stand still. A pricing formula that once accurately reflected market conditions may become outdated.

The parties often come to view the same contract very differently. One party may argue that the agreed pricing mechanism no longer reflects economic reality and should be revised, while the other insists that the certainty of the original bargain should be preserved. This divergence in commercial expectations marks the beginning of a pricing dispute under a long-term gas contract.

How do price disputes develop?

Price disputes rarely arise overnight. They usually develop gradually, as market conditions diverge from the assumptions made when the agreement was signed.

Warning signs include:

- Growing differences between contract prices and market prices
- Requests to commence a price review
- Disagreement over the meaning of review provisions
- Conflicting interpretations of pricing benchmarks
- Failure to reach agreement during negotiations

Arbitration or litigation becomes the next stage when negotiations fail.

Why are these disputes commercially significant?

Gas pricing disputes involve contracts that remain in force for many years and cover large volumes of gas. Even a small adjustment to the contract price can carry substantial financial implications - a minor change may translate into significant gains for one party and significant losses for the other.

That said, formally initiating a price review does not necessarily mean the dispute ends up before a tribunal. In practice, many reviews are resolved through negotiation once each side has tested its position; it is common for only a minority of initiated reviews to proceed all the way to a full arbitration hearing. Even so, the possibility of arbitration shapes how firmly parties negotiate, since neither side wants to test a weak position in front of a tribunal.

The changing approach to long-term contracts

Buyers have increasingly questioned whether traditional long-term gas contracts provide the commercial flexibility required in an evolving market. The growth of shorter-term trading opportunities and more liquid LNG markets has encouraged many participants to reassess the benefits of committing to long-term pricing arrangements.

Long-term contracts remain central to international gas trade despite these developments. They continue to provide the supply security and investment certainty needed to support large-scale energy projects.

The real challenge is finding a balance between preserving contractual certainty and allowing pricing mechanisms to adapt when market conditions change.

KEY TAKEAWAY

Most pricing disputes arise because the market has changed while the contract has stayed the same. The disagreement is rarely about whether prices have moved, but whether the contract permits those movements to be reflected - and many are ultimately settled rather than fought to a hearing.

CHAPTER 3: What Separates a Well-Drafted Price Review Clause from One That Invites Litigation

The effectiveness of a long-term gas contract depends less on the pricing formula itself and more on the wording of its price review clause.

A carefully drafted review mechanism provides a structured process for dealing with changing market conditions.

An unclear clause creates uncertainty precisely when certainty is needed most.

Why does drafting matter?

Price review clauses provide a framework for adjusting prices when specified market conditions occur. Not every clause, however, explains how that process should operate.

Questions frequently arise:

- What event triggers a price review?
- Which market factors should be considered?
- What evidence may be relied upon?
- What rights do the parties have during the review?
- What happens if negotiations fail?

Disagreement becomes significantly more likely where the contract does not answer these questions clearly.

What happens when agreement cannot be reached?

Many pricing disputes arise not because the parties disagree that market conditions have changed, but because they cannot agree on what the revised price should be. Both sides may accept that the original pricing mechanism no longer reflects commercial reality, while differing on how the contract should be adjusted.

This raises an important legal question: does the tribunal have the authority to determine a new price, or is its role limited to interpreting and enforcing the contract as drafted if negotiations fail?

The answer depends largely on the wording of the price review clause. The scope of the tribunal's powers is ultimately defined by the parties' agreement, which makes careful contractual drafting a critical factor in the resolution of pricing disputes. Older-generation clauses that are silent on what happens if agreement is not reached are a common source of this dispute in themselves.

The balance between certainty and flexibility

Long-term gas contracts are built around a delicate balance. The parties need a pricing arrangement stable enough to provide confidence over the duration of the contract, while recognising that no market remains the same forever.

Changes in economic conditions can make an agreed pricing formula less representative of the market it was originally designed to reflect.

This creates a challenge: a formula that is too rigid may produce prices that no longer make commercial sense after a major geopolitical or economic event. Yet if the pricing mechanism can be altered too easily, the certainty that justified entering into a long-term agreement is weakened.

Drafting a price review clause therefore requires care. Its purpose is not simply to allow prices to change, but to establish a fair process for dealing with market developments while preserving the stability long-term contracts are meant to provide.

What does a well-drafted clause achieve?

An effective clause establishes:

- Clear review triggers
- Transparent review procedures
- Defined criteria for assessing market changes
- Rights and obligations of both parties
- A structured mechanism if negotiations fail

These provisions reduce uncertainty and narrow the issues that may later become the subject of arbitration.

KEY TAKEAWAY

The strength of a price review clause lies in its clarity. A well-drafted provision provides certainty while allowing enough flexibility to address market changes without creating unnecessary disputes.

CHAPTER 4: Price Review Triggers and How Experts Reconstruct Market Prices

Long-term LNG contracts do not automatically allow prices to change simply because market conditions have shifted. Instead, they usually include a price review clause.

Common triggers include a significant change in market conditions, the contract price becoming inconsistent with comparable market prices, or the agreed price no longer reflecting the economic value of the gas. Determining whether one of these conditions has been met is usually the first issue a tribunal must resolve.

Timing is also critical. Many contracts specify the date on which market conditions must be assessed, for example - the date notice is given or the date negotiations commence. Given that gas prices can fluctuate over short periods, the chosen assessment date and the length of the assessment window can materially affect the outcome. Tribunals must decide which market developments are relevant to the review, and which fall outside its scope.

Many long-term LNG contracts also allow for multiple price reviews over the life of the agreement. In those cases, each review is carried out against the backdrop of earlier revisions, requiring experts to distinguish between changes already reflected in previous adjustments and genuinely new developments that justify further modification.

How experts reconstruct market price

ne established technique is a 'net-back' calculation. This starts from the weighted average price actually paid by different categories of end customer in the relevant market - industrial users, power generators, and domestic consumers - and works backward. From that average, the calculation deducts the costs the buyer faces in getting the gas to those end markets, such as pipeline and storage charges, together with a reasonable allowance for overheads and a profit margin, typically in the region of two to four percent. What remains is treated as the underlying market value of the gas. The approach is well established and generally works reasonably well, though it still leaves plenty of room for argument over the inputs used.

In other markets, particularly parts of Asia, price review clauses instead point to a comparison against other, comparable long-term contracts. This raises its own difficulties, since LNG pricing terms are typically confidential and rarely disclosed in full. Specialist industry data providers compile pricing benchmarks that experts and tribunals draw on for this purpose, but disputes still arise over which contracts are genuinely comparable - by origin, project type, and security of supply - and over exactly which time window should be used to assess prices.

Expert evidence plays a key role throughout this process. Experts examine factors such as pricing trends, comparable contracts, supply and demand, transportation costs, trading patterns, and pricing benchmarks.

Their task is not to renegotiate the parties' bargain, but to help the tribunal determine whether the contractual requirements for a price review have been met and, if they have, what revised price best reflects the agreement the parties actually reached.

KEY TAKEAWAY

Price reviews depend on contractual triggers, timing, and market evidence rather than on market movements alone - and the specific methodology used to reconstruct price, whether net-back or comparable-contract analysis, is often where disputes are won or lost.

CHAPTER 5: Black Swan Events - When the Unexpected Changes Everything

Global gas markets are regularly affected by major disruptions that alter the commercial assumptions on which long-term contracts are based. Recent examples include the COVID-19 pandemic, the conflict in Ukraine, and disruptions to international shipping routes.

These events have had significant effects on supply, demand, transportation costs, and LNG prices around the world. The occurrence of an extraordinary event does not automatically entitle a party to a price adjustment.

Parties frequently disagree about whether a particular event falls within the scope of the price review clause. Tribunals tend to focus on events that have already occurred rather than on future possibilities when resolving these disputes.

They also distinguish between short-term market volatility and permanent structural changes. The outcome depends on the language of the contract and the strength of the evidence presented by the parties.

KEY TAKEAWAY

Unexpected events can transform energy markets, but they affect contract prices only where the contract allows those changes to be reflected.

CHAPTER 6: Delivery Obligations and When Performance Becomes Impossible

Market disruptions can also affect a party's ability to perform its contractual obligations. Many LNG contracts include force majeure clauses, with examples typically covering war, natural disasters, government restrictions, and pandemics.

Force majeure does not, however, provide a blanket exemption from contractual obligations. Whether it applies depends on the wording of the contract and the circumstances of the case.

A rise in the cost of performance is insufficient on its own if delivery remains reasonably possible. Tribunals consider whether the affected party could have continued to perform by adopting reasonable alternative measures. Where force majeure cannot be established, the focus shifts to damages for breach of contract.

Seller's Force Majeure and portfolio supply obligations

All long-term contracts will include a provision to relieve the seller of its obligation to deliver in certain defined circumstances, which constitute Force Majeure. This can create disputes of its own – whether the problems the seller faced genuinely qualify for relief, whether it should be allocated pro rata across affected buyers or prioritised for some over others, and whether a seller with access to alternative sources of supply should be required to redirect that supply to cover the shortfall rather than relying on force majeure alone.

The answer often turns on how narrowly the contract defines the source of supply. Some agreements tie delivery obligations to a specific project, plant, or production train, which limits the seller's exposure if that source is affected. Others impose a broader portfolio supply obligation, which can require the seller to draw on unaffected supply elsewhere in its network. Disputes over which category a contract falls into - and how far down the supply chain the effects of a disruption can reasonably be said to reach - are increasingly common.

Assessing damages in LNG disputes is complex, since replacement cargoes may not be available, transportation costs vary, and market prices can fluctuate. Expert evidence is required to quantify the financial consequences of a breach.

KEY TAKEAWAY

Force majeure depends on the contract and the facts. Tribunals examine whether performance was genuinely prevented, how far the effects of a disruption reasonably extend through a seller's supply chain, and what losses resulted.

CHAPTER 7: Windfall Profits and the Doctrine of Efficient Breach

A further question has become increasingly relevant in volatile markets: what happens when a seller deliberately breaches a supply contract in order to sell the same cargo elsewhere at a higher price?

Many long-term LNG contracts cap a buyer's contractual remedy through liquidated damages, often set at a fixed percentage above the contract price. Where a seller has wilfully breached its obligations to take advantage of a price spike, tribunals have in some cases allowed the buyer to recover losses beyond that liquidated damages cap, provided the breach can be shown to have been deliberate rather than merely a failure to perform.

That does not necessarily mean the buyer can claim the full extent of the seller's profit, however. Under the doctrine of 'efficient breach' - long recognised in a number of United States courts, and increasingly referenced in English case law - a party that deliberately breaches a contract may be entitled to retain any windfall profit generated by that breach, provided the non-breaching party has been made whole for its own losses. The rationale is that the wider market benefits when a party in breach is free to redirect its performance to its most valuable use, so long as the counterparty suffers no uncompensated loss.

This is a developing and contested area. Some contracts already include profit-sharing provisions addressing what happens if cargoes are diverted to other buyers or destinations. Drafting these carefully matters: a clause requiring a breaching party to share profits beyond making the other party whole may itself be vulnerable to challenge as an unenforceable penalty, depending on the governing law.

The issue is not confined to situations where a seller can simply choose not to deliver. In markets affected by a genuine supply disruption, prices can rise across the board - meaning that even parties with no connection to the disruption itself may face the same underlying question if they had a choice about where to direct available supply.

KEY TAKEAWAY

Where a seller deliberately breaches a contract to capture a higher price elsewhere, the law does not automatically require it to hand over that windfall, even after compensating the buyer in full. Parties negotiating these contracts should consider expressly addressing what happens to profits generated by a diversion, rather than leaving the question to be resolved after the fact.

CHAPTER 8: Why Expert Evidence Determines the Outcome

Long-term gas pricing disputes are driven as much by economic and commercial evidence as by legal principles. Once a dispute reaches arbitration, the central questions are whether the contractual requirements for a price review have been met and, if they have, what revised price is consistent with the parties' agreement.

Expert evidence plays a central role in answering these questions. Experts provide independent analysis of factors such as market prices, supply and demand, LNG trade flows, shipping costs, pricing benchmarks, and historical market trends.

Their role is not to argue the case for either party, but to assist the tribunal by explaining complex economic and commercial evidence clearly and objectively. As LNG markets continue to evolve, carefully drafted contracts and high-quality expert evidence remain essential to the fair resolution of pricing disputes.

No contract can anticipate every future market development. Well-designed price review mechanisms nonetheless provide a practical means of responding to changing market conditions while preserving the commercial balance originally agreed by the parties.

KEY TAKEAWAY

Objective expert evidence enables tribunals to apply contractual pricing mechanisms fairly in changing markets, ensuring that long-term agreements remain commercially workable.