

Offshore Energy Law

LNG chartering – amendments to period time charterparties for a single voyage?

The LNG industry has been changing in the past decades and there has been a shift from chartering LNG carriers on a long-term basis to a short- or mid-term basis.

A voyage charter is usually used for a single voyage in the spot market and voyage charters do exist for LNG (such as LNGVOY). However, the spot market for LNG cargoes is a recent new development and in practice many owners are still using time charters for short-term business. Reasons for the LNG industry's reluctance to use voyage charters are varied - one particular concern is how issues particular to LNG shipping can be addressed in voyage charters.

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It is of course up to the parties to decide which form of charterparty they wish to use and to adapt those clauses to their needs. In this article, I will explore some of the key issues involved in using and amending time charter terms for LNG vessels performing a spot voyage.

Condition of Tanks on arrival at Load Port

The cooling down of the cargo tanks of LNG carriers prior to loading adds to the time necessary to load. For longer-term charterparties, it is generally easier for owners to keep the tanks cool and ready to load with minimal delays, as they will have more information about the vessel's itinerary.

In contrast, with vessels chartered for a single voyage, owners will not have the same information about the vessel's schedule. One solution adopted in Clause 5(a) of LNGVOY is to provide flexibility by giving three options for the presentation and

condition of the cargo tanks on arrival at the load port¹.

Scheduled Arrival Time

Loading and discharging operations should be performed on time by LNG vessels as delays can be costly. There may be limited flexibility for plants to alter production and lack of shore storage.

Most voyage charters have a specific delivery window whereby risks of delay and ensuing boil-off are allocated (for example, LNGVoy has an agreed "Delivery Window"), but note that this relates to arrival at the discharging port.

In contrast, in ShellLNGTime² (a time charter form widely used in the industry), charterers are permitted to nominate a scheduled arrival time ("SAT") at the pilot boarding station at each port and if no such nomination is made, the SAT shall be deemed to be the estimated arrival time of the vessel. It might be thought that under a typical time charter the SAT is concerned with the laycan under the charterparty (the period when the vessel must arrive at the port). However, the SAT is actually concerned with the speed the vessels must perform and Appendix C Article 1(a)(iv) of ShellLNGTime 2 makes this clearer by defining the "Guaranteed Speed" as: "the speed at which the vessel needs to proceed in order to achieve the Scheduled Arrival Time". Most voyage charters (such as LNGVoy at Clause 10) contain a clause dealing with the laycan period.

¹ The options under Clause 5(a) are with tanks (i) cooled down and ready to receive cargo; (ii) warm, either under natural gas vapours or (iii) inerted.

² See SLNGT1 Appendix C Article 2.

Heel Retention

Generally, the additional cooldown time is avoided by retaining some LNG at the previous discharge port to carry back to the load port. This is known as the 'Heel'. In short-term charters there are various contractual issues relating to heel which will need to be resolved, such as: which party owns the heel? Or, can the owners retain the heel from the charterers' cargo to arrive cool into the next fixture?

Where a vessel is employed on a long-term charter to the same charterer and that charterer decides how much LNG to retain on board, the owners are generally less concerned about what happens to the heel in between the voyage. Owners are usually more interested at the start or at the end of the charterparty when ownership of the heel is transferred.

The position with a single voyage charter is different. Owners and charterers may have different aims. Generally speaking, once the voyage is completed the charterers will have little interest in the next voyage once their cargo has been discharged. However, owners may want to retain sufficient heel from the charterers' cargo to ensure that they can comply with their obligations in the next fixture.

Safe Port Warranty

It is important to consider whether the safe port warranty provided by charterers is absolute or qualified in a single voyage charter.

Some voyage charterparties do not contain an express warranty from the charterers on the safety of the berth. However, under LNGVoy, Loading Port and Discharging Port are defined to include a "safe place", and Clause 7(b) provides that "Charterers warrant that they have exercised due diligence to ensure that the Loading and Discharging Ports are safe." Therefore, unless amended, charterers are under similar obligations to those imposed under ShellLNGTime1³.

It should also be borne in mind that owners are also required, under both forms, to ensure that the vessel is compatible to load at the nominated terminal.

Speed and Consumption

Lastly, in Stuart Beadnall's article "LNG Consumption" in this edition of Well Heeled, he discusses whether an accurate measurement of fuel consumed at any given time may be made for LNG vessels in the context of speed and consumption calculations. This raises the question of how you correctly measure the amount of fuel consumed when dealing with a one-year time charter versus a single voyage. I will not go into this point in this article but I would refer the reader to Stuart's articles if this issue is of interest, as this is something to bear in mind when negotiating these provisions.



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³ Clause 4(c) of the ShellLNGTime1 form provides that "*Charterers shall use due diligence to ensure that the Vessel is only employed between and at safe places*".