

# Offshore Forum: FLNG



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Combining onshore LNG production methodologies with offshore oil and gas development technologies, FLNG has certain technical, operational and legal challenges:

- remote locations exposed to the elements;
- scalability;
- storage (reducing sloshing, and its effects on stability);
- production;
- offloading (connection leaks, material degradation failures or brittle fractures);
- stability, structural integrity and safety are critical.

In May 2014, The Standard Club hosted an Offshore Forum at the Fullerton Hotel in Singapore which focussed on FLNG technology. The event attracted many companies from the offshore industry, including oil companies, offshore marine contractors, market underwriters and service providers. This article looks at a couple of the issues discussed.

Demand for natural gas is growing rapidly worldwide, particularly in Asia. FLNG technology attempts to meet this demand by exploiting offshore gas fields that were once considered logistically and financially unviable. In 2013, offshore gas accounted for 31.3% of the total global production. This figure is set to increase significantly in the near future with the advent of numerous FLNG projects. With the Shell Prelude shortly entering service off the northwest coast of Australia, it is opportune to look at the issues at play in this area of unproven and untested technology.

## Regulation

In the regions where some of the FLNG units under construction are expanded to operate there is a concerning lack of common regulation, with the ratification of international agreements varying between affected states. These issues are no more prevalent than in the Asia Pacific region (with the exception of Australia), where there are no cross-border regulatory frameworks that govern and oversee offshore activities, leading to inconsistency in the operational and safety standards required. The uncertainty is compounded when considering the interpretation of international conventions among signatory states and whether these apply to FLNGs. This has the potential to affect an operator's liabilities and ability to limit their exposure.

## Cover

The Pooling Agreement has not yet expressly addressed the issue of FLNG technology, but it is envisaged that it would ultimately be approached in the same way as FPSOs. In its current drafting, such units are not eligible for inclusion when they are engaged in operations in connection with gas production under the Drilling and Production Operations exclusion.

Fortunately, the club plans to be able to provide a solution for its members under the Standard Offshore Rules (SOR) cover, much in the same way it has for FPSOs. P&I cover up to US\$1bn can currently be provided under the SOR under the club's non-pool reinsurance programme. This would respond to the member's liability in connection with the operation of the unit for personal injury/death/illness, pollution, wreck removal, collision, contact damage and fines<sup>1</sup> as well as those liabilities assumed under contract that fall within the scope of the SOR (subject to contract approval).

If you would like any further information, please contact John Croucher, Ian Billington, Joseph Divis or Nick Taylor. Their contact details are on the Standard Club [website](#)