



Professor Rosaeg,
LNG Correspondence Group Leader
Scandinavian Institute of Maritime Law,
University of Oslo

Julien RAYNAUT

GIIGNL Commercial Study Group
HNS Convention Working Group
14, rue Fructidor – Immeuble Colisee IV
75017 Paris
FRANCE

Direct Line: +33 1 41 66 06 72
Julien.raynaut@gazdefrance.com
Web Site: www.giignl.com
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Dear Erik,

**CORRESPONDENCE GROUP ON CONTRIBUTIONS TO THE LNG ACCOUNT -
HNS CONVENTION**

The International Group of Liquefied Natural Gas Importers (GIIGNL) has been granted of observer status to international non-governmental organisation in the Montreal IOPC Fund Meetings of June 2007.

Following the establishment of the *IOPC Correspondence Group on non-collectable levies to the LNG separate account of the HNS Fund*, we are happy to participate to the discussion engaged by your follow-up paper setting out a number of proposals. We apologise for this very late answer.

This first letter is a first round of observations from the LNG importers industry and shall be updated from time to time, following the debates and discussions generated by such IOPC Funds forum.

LNG Importers work on the contribution to the LNG account

GIIGNL has worked internally on such issue from the creation of a dedicated working group on the HNS Convention in 2003 and started to raise the problem internationally to the IOPC Funds or through contacts between GIIGNL members and their relevant government. The document shared with this Correspondence Group (GIIGNL HNS General Report) is developing the issues raised by the LNG industry.

Difficulty to collect levies to the HNS Fund in respect of LNG – solutions explored

On a GIIGNL point of view, the best solution for the LNG industry shall be a global regime and a same solution in all relevant States Parties : this point is relevant as similar legislations in Contracting States will facilitate competition, notably within European Union.

The first proposed solutions to focus on the titleholder are certainly more appropriate in term of LNG practice and of compliance with the HNS regime (see below).

According to GIIGNL, different kind of approaches can be developed in order to find a solution to such issue and every LNG player is requiring it to be solved before the entry into



force of the Convention : this Correspondence Group will have to explore more in detail the proposed ways to guarantee the collection of expected contributions from companies belonging to non-Contracting States and asking Ex-ship Sellers to provide bank guarantees or contract special insurances has to be further analysed.

Other kind of solution to be investigate, outside the scope of the financial securities, has been developed by the Canada : *“to have in the implementation legislation, a requirement for the titleholder to transfer the title to the receiver immediately before discharging LNG in the contracting-state”*. We would like here to precise the practice of Ex-ship Sales of LNG as it can offer a better understanding of such issue. According to such LNG practice, two different title transfer points are existing in case of Ex-ship contract : at the physical delivery point (*“the point at the Discharge Port where the outlet flanges of the unloading lines of the LNG Ship connect with the inlet flanges of the unloading lines of the LNG Receiving Facilities”*) or before the entry into territorial waters (*“when the LNG Ship reaches the point one mile prior to entry into the territorial waters”*). We have to consider that such decision is resulting from a free discussion between LNG Seller and LNG Buyer. With a transfer of title before the entry into territorial waters, then before the physical delivery and discharge of LNG, the contributor to the HNS Fund in this case will be the LNG Buyer.

The Spirit of the HNS Convention against the principle of joint liability of the receiver and the usage of the Administrative Funds

In your letter, you are exploring the solution of a joint liability of the physical receiver and also to a HNS Fund's Administrative Costs covering any shortfall situation. GIIGNL does not believe that these two proposals will be acceptable and applicable as they are not in line with the spirit of the Convention.

We have taken good note of the documents submitted by Netherlands, Spain, UK and Romania and a common interpretation of the HNS system is developed by such relevant states : we are totally supporting that *“the spirit of the HNS Convention should not be violated by establishing procedures that in practice eliminate exceptions included for LNG (Art. 19.1 b)”*.

Moreover, we do not see any real argument for the moment defending the fact that enforcing the title holder to set up a security or submit to the jurisdiction to a State Party should be difficult or impossible.

We agree that the main objective of such Correspondence Group is to work on realistic and practical solutions but we are confident that exploring mechanism in line with the text of the HNS Convention will be more relevant and a solution agreeable for future Contracting States.

As our next meeting of HNS within GIIGNL is scheduled next month, we will come back to the Correspondence Group before the end of September with more detailed elements on the appropriate ways to collect the levies from title holders.

Best regards,

Julien RAYNAUT