

HERBERT SMITH FREEHILLS OFFERS LEGAL PERSPECTIVE ON OIL PRICE FALL

22 April 2020 | Global
News

Responding to news that oil prices continue to fall, [William Breeze](#), a partner in Herbert Smith Freehills' finance practice, says:

"The question of how to balance over-supply of oil with a finite amount of space to store it has become a pressing challenge for the oil industry. Should storage reach maximum capacity while supply continues to outstrip demand, further falls in oil prices are certain to occur as producers fight to maintain production and avoid not only the long-term costs of shutting in fields, but also the practical challenges of re-starting them.

"From a legal standpoint, it means that the funding arrangements enabling many of the world's largest producers to operate will be impacted by a sustained low price. Borrowing base amounts are generally determined twice a year and at these points assumptions are made about the future oil price to set the price deck. With so much uncertainty many borrowers will now struggle to raise the additional financing they may need right now.

"Of course, efforts to refinance existing deals are to be expected, particularly where it appears as though borrowers will remain at risk of non-compliance with their obligations under existing financing arrangements for an extended period of time."

Further analysis, including insights into the recent OPEC+ deal, has been provided in the firm's latest blog, accessible [here](#).

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