

DETERMINATION OF MERGER NOTIFICATION M/22/068 – VERMILION / EQUINOR ENERGY

Section 21 of the Competition Act 2002

Proposed acquisition by Vermilion Oil and Gas Ireland Limited of Equinor Energy Ireland Limited

Dated 27 January 2023

Introduction

1. On 22 December 2022, in accordance with section 18(1)(a) of the Competition Act 2002, as amended (the “Act”), the Competition and Consumer Protection Commission (the “Commission”) received a notification of a proposed acquisition, whereby Vermilion Oil and Gas Ireland Limited (“Vermilion”), a wholly owned subsidiary of Vermilion Energy Inc., would acquire sole control of Equinor Energy Ireland Limited (“Equinor Energy”) (“the Proposed Transaction”).

The Proposed Transaction

2. The Proposed Transaction will be implemented pursuant to a share purchase agreement dated 29 November 2021 between Vermilion and Equinor ASA (“SPA”). Under the terms of the SPA, Vermilion will acquire the entire issued share capital, and thus sole control, of Equinor Energy from Equinor ASA.

Reason for re-notification

3. The Proposed Transaction was previously notified to the Commission on 20 December 2021 and cleared by the Commission on 26 January 2022 in accordance with section 21(2)(a) of the Act (Determination *M/21/075 - Vermilion/ Equinor Energy*).¹

¹ Accessible at <https://www.cpc.ie/business/wp-content/uploads/sites/3/2021/12/M.21.075-Vermilion-Equinor-Energy-public-determination.pdf>



4. Section 19(3) of the Act provides that a determination made by the Commission pursuant to section 21 or 22 of the Act that a merger or acquisition notified to it may be put into effect shall not operate to permit such merger or acquisition to be put into effect if the merger or acquisition is not put into effect before the expiry of the period of 12 months after the date on which the determination is made. The parties have informed the Commission that they would likely not be in a position to put into effect the Proposed Transaction before the expiry of the period of 12 months after 26 January 2022, as the Ministerial Consent required pursuant to the petroleum lease entered into between the Corrib partners and the Minister for Communications, Climate Action and Environment in order to complete the Proposed Transaction remained outstanding.² Accordingly, the parties re-notified the Proposed Transaction to the Commission on 22 December 2022.

The Undertakings Involved

The Acquirer - Vermilion

5. Vermilion is a private limited company registered in the State under company number 560988, with its registered office in Ballsbridge, Dublin. Vermilion sells gas produced at the Corrib Gas Field (“Corrib”).³ Vermilion currently holds a 20% interest in Corrib.⁴ Vermilion is ultimately controlled by Vermilion Energy Inc., which is a Canadian based oil and gas producer listed on the Toronto and New York Stock Exchanges. Vermilion Energy Inc. is active in the State through Vermilion, Vermilion Energy Ireland Limited and Vermilion Exploration and Production Ireland Limited.
6. For the financial year ending 31 December 2021, Vermilion Energy Inc.’s total worldwide turnover was € [...],⁵ of which € [...] was generated in the State.⁶

² The petroleum lease, originally dated 15 November 2001, was amended and restated in 2018.

³ Corrib is located approximately 83 kilometres off the coast of County Mayo. Gas from Corrib is produced offshore and transported to a gas terminal at Bellanaboy Bridge, County Mayo.

⁴ This interest in Corrib is held by two Vermilion subsidiaries; Vermilion Energy Ireland Limited and Vermilion Exploration and Production Ireland Limited.

⁵ The figure of \$[...] Canadian dollars has been converted to euro using the average conversion rate of December 2022, \$1 = €0.6955, as provided by the European Central Bank at https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-cad.en.html.

⁶ The figure of \$[...] Canadian dollars has been converted to euro using the average conversion rate of December 2022, \$1 = €0.6955, as provided by the European Central Bank at https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-cad.en.html



The Target – Equinor Energy

7. Equinor Energy is a private limited company registered in the State under company number 249996. Its registered office is in Sir John Rogerson’s Quay, Dublin. Equinor Energy is active in the production and wholesale supply of natural gas in the State and holds a 36.5% interest in Corrib. Equinor Energy is a wholly owned subsidiary of Norway headquartered oil and gas producer Equinor ASA. Equinor ASA is also active in the wholesale supply of natural gas in the State through natural gas imported from the United Kingdom (“UK”).
8. For the financial year ending 31 December 2021, Equinor ASA’s total worldwide turnover was € [...], of which €304,180,000 was generated in the State.

Rationale for the Proposed Transaction

9. The parties state the following in the notification:

“Vermilion sees [Equinor Energy] as an attractive investment opportunity. Vermilion considers Corrib to be a long-term investment and has operated the asset safely and successfully over the last few years. Vermilion therefore views increasing its working interest in the Corrib asset to be an attractive investment.”

Third Party Submissions

10. No submission was received.

Industry Background

11. Natural gas is extracted from production fields globally and within the State. Natural gas can be transported through pipelines or on ships designed to transport liquefied natural gas (“LNG”).⁷ The State’s gas transportation system is heavily interconnected with the UK’s gas transportation system. The State is connected to Great Britain through two separate sub-sea interconnector gas pipelines and to Northern Ireland through the South-North Pipeline.

⁷ LNG is natural gas which has been cooled to a liquid state for shipping and storage before going through a process known as regasification to convert it back into natural gas for usage.

Natural gas is estimated to currently meet approximately 30-35% of the State's energy needs.⁸ While the State has a domestic source of natural gas, the wholesale price of natural gas continues to be set by reference to the wholesale price at the British gas market, known as the National Balancing Point ("NBP").⁹

12. Corrib is a natural gas field located off the coast of Co. Mayo. Production began at Corrib in 2015. Following the closure of the Kinsale Gas Field in 2020, Corrib is the only domestic producing source of natural gas. According to Gas Networks Ireland's *Winter Outlook 2022/2023*,¹⁰ Corrib is anticipated to meet 21% of the State's gas demand from October 2022 to March 2023, with imported natural gas anticipated to supply the remaining 79%. Owing to the depletion of Corrib, imported natural gas is expected to meet a growing portion of the State's gas demands.¹¹
13. Three entities currently hold interests in Corrib. Vermilion holds a 20% interest, Equinor Energy holds a 36.5% interest and the Canada Pension Plan Investment Board¹² ("CPPIB") holds a 43.5% interest.

Competitive Analysis

Horizontal Overlap

14. Vermilion and Equinor Energy are both active in the production and wholesale supply of natural gas in the State through their respective interests in Corrib. This gives rise to a horizontal overlap between the activities of the parties in the State.

Relevant Markets

15. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case. In this instance, it is not necessary for the Commission to

⁸ See Department of the Environment, Climate and Communications (2021). "Policy information: Gas" at <https://www.gov.ie/en/policy-information/f1ecf1-gas/#>, Sustainable Energy Authority of Ireland (2020). *Energy Security in Ireland: 2020 Report*, accessible at <https://www.seai.ie/publications/Energy-Security-in-Ireland-2020-.pdf>, and George Lee (2022). "At a glance: Where does Ireland's energy come from?", RTE, accessible at <https://www.rte.ie/news/environment/2022/0905/1320733-where-does-irelands-energy-come-from/>
⁹ <https://www.erce.energy/graph/uk-natural-gas-nbp-spot-price/>

¹⁰ Accessible at <https://www.gasnetworks.ie/docs/corporate/gas-regulation/Winter-Outlook-2022.pdf>

¹¹ The projected decline in indigenous natural gas production is outlined in Figure 19 of Sustainable Energy Authority of Ireland (2020). *Energy Security in Ireland: 2020 Report*, accessible at <https://www.seai.ie/publications/Energy-Security-in-Ireland-2020-.pdf>.

¹² The CPPIB is a professional investment management organisation headquartered in Toronto, Canada, which invests the funds of Canada Pension Plan.



define the precise relevant markets because doing so will not alter the Commission's assessment of the competitive effects of the Proposed Transaction.

16. The Commission has previously considered the production and wholesale supply of natural gas in the State in *M/18/062 Vermilion Oil and Gas Ireland Limited/ Shell E&P Ireland Limited*¹³ and in *M/21/075 – Vermilion/ Equinor Energy*.¹⁴ In these Determinations, the Commission ultimately left the precise market definition open but assessed the competitive impact of the respective transactions by reference to the potential market for the production and wholesale supply of natural gas in the State.
17. In the current case, the Commission has found no reason to depart from its previous approach and, accordingly, the Commission has assessed the Proposed Transaction by reference to the potential market for the production and wholesale supply of natural gas in the State.

Competitive Assessment

18. Vermilion and Equinor Energy are active in the production and wholesale supply of natural gas in the State through their interests in Corrib, holding a 20% and 36.5% interest, respectively.
19. Gas Networks Ireland's *Winter Outlook 2022/2023*¹⁵ forecasts that natural gas from Corrib will meet approximately 21% of the State's gas demand from October 2022 to March 2023. Based on this forecast and their respective interest in Corrib, the parties estimate that Vermilion has a [5-10%] share in the potential market for the production and wholesale supply of natural gas in the State. Similarly, the parties estimate that Equinor Energy has a [5-10%] share in the potential market for the production and wholesale supply of natural gas in the State.¹⁶ Therefore, the Proposed Transaction would lead to an increase of [5-10%] in

¹³ Accessible at <https://www.ccpc.ie/business/mergers-acquisitions/merger-notifications/m18062-vermilion-oil-gas-sepil-shell/>

¹⁴ Accessible at <https://www.ccpc.ie/business/wp-content/uploads/sites/3/2021/12/M.21.075-Vermilion-Equinor-Energy-public-determination.pdf>

¹⁵ Accessible at <https://www.gasnetworks.ie/docs/corporate/gas-regulation/Winter-Outlook-2022.pdf>

¹⁶ Equinor ASA's total share of the potential market for the production and wholesale supply of natural gas in the State is [20-25%], which includes natural gas supplied through Corrib as well as its supply through the UK.



Vermilion's estimated existing share in the potential market for the production and wholesale supply of natural gas in the State.¹⁷

20. There are a number of other providers active in production and wholesale supply of natural gas in the State. According to Gas Networks Ireland's *Winter Outlook 2022/2023*, international imports will account for an estimated 79% share of wholesale supply of natural gas in the State from October 2022 to March 2023. Major international providers include Public Joint Stock Company Gazprom, Equinor ASA, BP plc, Exxon Mobil Corporation and Royal Dutch Shell plc. The CPPIB is estimated to have a [5-10%] share in the potential market for the production and wholesale supply of natural gas in the State.¹⁸ These providers will continue to act as a competitive constraint on Vermilion following the implementation of the Proposed Transaction.
21. Furthermore, having reached peak production in 2018, Corrib's available resources for the production and wholesale supply of natural gas is expected to decline over the coming years.¹⁹ Consequently, Vermilion's share in the potential market for the production and wholesale supply of natural gas in the State is expected to decrease.
22. As detailed previously, the State is heavily interconnected with the UK's gas network and wholesale natural gas prices in the State continue to be set by reference to the UK's NBP. Given imported natural gas is expected to meet a growing portion of the State's demand in future years,²⁰ individual companies would have limited pricing power. Therefore, the Commission considers that the Proposed Transaction does not raise any horizontal competition concerns in the State.

Vertical Relationship

23. The parties have stated in the notification that there is no material vertical relationship between Vermilion and Equinor Energy.

¹⁷ The methodology underlying these share estimates assumes that the share of each supplier with an interest in Corrib equates to the proportion of total demand in the State which its share of Corrib's production represents, and that all gas produced in Corrib is consumed in Ireland.

¹⁸ As estimated by the parties.

¹⁹ As stated by the parties in the notification.

²⁰ Department of the Environment, Climate and Communications (2021). "Policy information: Gas" at <https://www.gov.ie/en/policy-information/f1ecf1-gas/#>



24. The parties have a framework agreement at the Irish Balancing Point (“IBP”) and trade small quantities with one another as needed to balance quantities. Gas balancing requires gas shippers to balance their inputs to and outputs from a gas transmission system. The IBP is the point where quantities of natural gas are exchanged within the transmission system. Balancing Points, and the trading and/or exchange of gas therein, are common features of numerous countries’ gas markets. Furthermore, the quantity of gas traded between Vermilion and Equinor Energy under the framework agreement at the IBP in 2022 was [...].²¹
25. Consequently, the Commission considers that the Proposed Transaction does not raise any vertical competition concerns in the State.

Conclusion

26. In light of the above, the Commission considers that the Proposed Transaction will not substantially lessen competition in any market for goods or services in the State.

Ancillary Restraints

27. No ancillary restraints were notified.

²¹ [...].

Determination

The Competition and Consumer Protection Commission, in accordance with section 21(2)(a) of the Competition Act 2002, as amended, has determined that, in its opinion, the result of the proposed acquisition, whereby Vermilion Oil and Gas Ireland Limited, a wholly owned subsidiary of Vermilion Energy Inc., would acquire sole control of Equinor Energy Ireland Limited, will not be to substantially lessen competition in any market for goods or services in the State, and, accordingly, that the acquisition may be put into effect.

For the Competition and Consumer Protection Commission.

Brian McHugh

Member

Competition and Consumer Protection Commission