



DETERMINATION OF MERGER NOTIFICATION M/21/075 – 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 26 January 2022

Introduction

1. On 20 December 2021, 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.

The Undertakings Involved

The Acquirer - Vermilion

3. Vermilion is a private limited company registered in the State under company number 560988, with its registered office in Ballsbridge, Dublin. Vermilion currently operates and sells gas produced at the Corrib Gas Field¹ (“Corrib”). Vermilion currently holds a 20%

¹ The Corrib Gas Field is located approximately 83 kilometres of the coast of County Mayo. Gas from Corrib is produced offshore and transported to a gas terminal at Bellanaboy Bridge, County Mayo.



interest in Corrib². 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.

4. For the financial year ending 31 December 2020, the worldwide turnover of Vermilion Energy Inc was [...] ³, of which €40,418,175 was generated in the State ⁴.

The Target – Equinor Energy

5. Equinor Energy is a private limited company registered in the State under company number 249996. Its registered office is 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.
6. For the financial year ending 31 December 2020, the total worldwide turnover of Equinor Energy was €103,000,000, all of which was generated in the State.

Rationale for the Proposed Transaction

7. The parties state the following in the notification:

“Vermilion sees EE [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.”

² This interest in Corrib is held by two Vermilion subsidiaries; Vermilion Energy Ireland Limited and Vermilion Exploration and Production Ireland Limited.

³ [..]

⁴ The figure of \$58,450,000 Canadian dollars has been converted to euro using the average conversion rate of December 2021, \$1 = €0.6915, 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



Third Party Submissions

8. No submission was received.

Industry Background

9. 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 liquid natural gas (LNG)⁵. The State's gas transportation system is heavily interconnected with the UK. The State is connected to Great Britain through two separate sub-sea interconnector gas pipelines and to Northern Ireland through the South-North Pipeline. Natural gas is estimated to currently meet approximately 30% of the State's energy needs⁶. 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).⁷
10. 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 2020/2021*⁸, Corrib met 36% of the State's gas demand from October 2019 to September 2020, the Inch Entry Point met 3%⁹, and imported natural gas supplied the remaining 61%. Owing to the depletion of Corrib, imported natural gas is expected to meet a growing portion of the State's gas demands.
11. 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 Board¹⁰ ("CPPIB") holds a 43.5% interest.

⁵ 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.

⁶ <https://www.gov.ie/en/policy-information/f1ecf1-gas/#>

⁷ <https://www.erce.energy/graph/uk-natural-gas-nbp-spot-price/>

⁸ Accessible at <https://www.gasnetworks.ie/corporate/gas-regulation/regulatory-publications/Winter-Outlook-2020.pdf>

⁹ As of June 2020, the Inch Entry point is no longer active owing to the end of production in the Kinsale Gas Field.

¹⁰ The CPPIB is a professional investment management organisation headquartered in Toronto, Canada which invests the funds of Canada Pension Plan.



Competitive Analysis

Horizontal Overlap

12. 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

13. The Commission defines the 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 define the precise relevant markets because doing so will not alter the Commission's assessment of the likely competitive effects of the Proposed Transaction.
14. 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*¹¹. In that Determination, the Commission ultimately left the precise market definition open but assessed the competitive impact of that transaction by reference to the potential market for the production and wholesale supply of natural gas in the State.
15. In the current case the Commission has found no reason to depart from its previous approach and, accordingly, the Proposed Transaction is assessed by reference to the potential market for the production and wholesale supply of natural gas in the State.

Competitive Assessment

16. 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.
17. The parties estimate, on the basis of *Gas Networks Ireland Winter Outlook 2020/2021*¹², that natural gas from Corrib met approximately 36% of the State's gas demand in 2019/2020.

¹¹ The Commission's determination can be accessed at <https://www.ccpc.ie/business/mergers-acquisitions/merger-notifications/m18062-vermilion-oil-gas-sepil-shell/>.

¹² Accessible at <https://www.gasnetworks.ie/corporate/gas-regulation/regulatory-publications/Winter-Outlook-2020.pdf>



Based on this estimation and their respective interest in Corrib, Vermilion is estimated by the parties to have a [5-10%] share in the potential market for the production and wholesale supply of natural gas in the State. Similarly, Equinor Energy is estimated by the parties to have a [10-15%] share in the potential market for the production and wholesale supply of natural gas in the State. Therefore, the Proposed Transaction would lead to an increase of approximately [10-15%] in Vermilion's estimated existing share in the potential market for the production and wholesale supply of natural gas in the State¹³.

18. There are a number of other providers active in production and wholesale supply of natural gas in the State. According to *Gas Networks Ireland Winter Outlook 2020/2021* international imports represented an estimated 61% share of wholesale supply of natural gas in the State in 2019/2020. 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 [15-20%] share in the potential market for the production and wholesale supply of natural gas in the State. These providers will continue to act as a competitive constraint on Vermilion following the implementation of the Proposed Transaction.
19. Furthermore, having reached peak production in 2018, Corrib's available resources for wholesale supply of natural gas are expected to decline over the coming years. Consequently, Vermilion's share in the potential market for the production and wholesale supply of natural gas in the State is expected to decrease.
20. As detailed previously, the State is heavily interconnected with the UK 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 from the UK is expected to meet a growing portion of the State's demand in future years¹⁴, individual companies would have limited pricing power. Therefore, the Commission is of the view that the Proposed Transaction does not raise any horizontal competition concerns in the State.

¹³ 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.

¹⁴ <https://www.gov.ie/en/policy-information/f1ecf1-gas/#>



Vertical Relationship

21. The parties have stated in the notification that there is no material vertical relationship between Vermilion and Equinor Energy.
22. The parties have a framework agreement at the Irish Balancing Point (“IBP”) and trade small quantities with one another as needed to balance quantities if either Vermilion or Equinor Energy is short/long for long term contracts. 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/exchange of gas therein, are common features of numerous countries’ gas markets. Furthermore, the quantity of gas traded between Equinor Energy and Vermilion under the framework agreement at the IBP in 2021 was [...]¹⁵.
23. Consequently, the Commission considers that the Proposed Transaction does not raise any vertical competition concerns in the State.

Conclusion

24. 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

25. No ancillary restraints were notified.

¹⁵ [...]



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