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Germany: nationalisation of Gazprom's gas assets

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On 14 November the Federal Ministry for Economic Affairs and Climate Action (BMWK) issued an order concerning the nationalisation of Securing Energy for Europe GmbH (SEFE), a company which concentrates Gazprom's gas assets in Germany, and which operated under the name Gazprom Germania until June. In April, Berlin took control of the company by placing it under the trusteeship of the Federal Network Agency (BNetzA).

The facts, the details of the operation and the reasons for the decision are extensively presented in the BMWK's order as published in the Federal Gazette of Germany. It is written in the document that the company is in a state of excessive debt with no prospect of improvement. In addition, due to the company's ownership ties with Gazprom, the current political risks and an uncertain future, some of the existing business partners in key areas (including the banking and insurance sectors) have begun to stop co-operating with it. All this has started to adversely affect the current functioning of the company, and has also reportedly created the risk that its further operations may be paralysed/frozen. In this situation, the restructuring advisor employed by BNetzA (as a managing entity) recommended that the company undergoes ownership changes and a recapitalisation (the necessary funds have been estimated at a total of €7.7 billion). Otherwise, SEFE would run the risk of going bankrupt. Given the company's key role on the German gas market, this would pose a serious threat to the security of Germany's energy supply.

Equity instruments have been used to nationalise SEFE. Firstly, due to the company's huge indebtedness (losses exceeded equity by more than €2 billion), the share capital was reduced to zero, thanks to which the existing Russian shareholders were removed from the list of owners. Secondly, it was ordered that a contribution of €226 million be made by a new shareholder, the state-owned company Securing Energy for Europe Holding GmbH (SEFEH). On 12 November the European Commission gave its consent to this operation.

Furthermore, according to a statement published by BMWK, the German government plans to convert the (unspecified) part of the loan granted to SEFE by the state-owned bank KfW (a total of €11.8 billion) into the company's equity. Additionally, the credit line for the company is to be increased by €2 billion. The planned debt conversion would have to be approved by the European Commission.

SEFE (formerly Gazprom Germania) is a company of key importance on the German and, more broadly, the European gas market. Until recently, it was one of Gazprom's strategic assets in Europe. These include storage infrastructure, including a 100% stake in Astora, which owns large gas tanks in Germany and Austria. In addition, SEFE co-owns the warehouses Katharina and Etzel in Germany, Dambořice (Czech Republic), Banatski Dvor

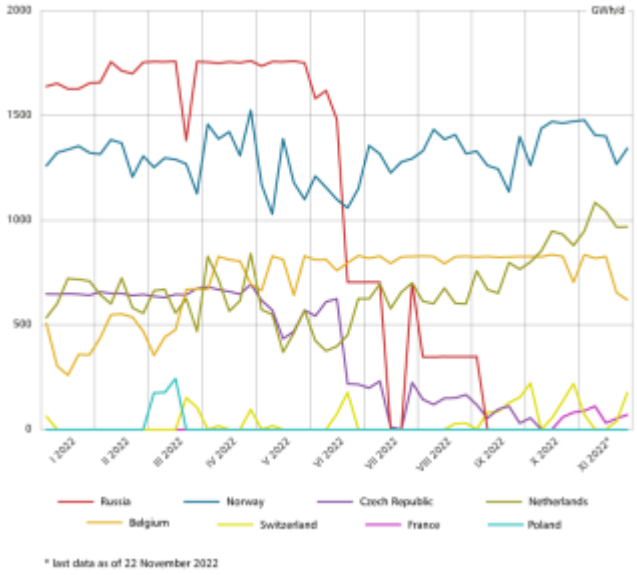
(Serbia) and Bergermeer (Netherlands). Moreover, it is also a co-owner of gas transmission routes in Germany (including the onshore branches of Nord Stream, NEL and OPAL) and holds 49.98% of shares in Gascade Gastransport, the owner and operator of over 3000 km of gas pipelines in Germany. Finally, SEFE owns important companies operating on the gas trading market, such as SEFE Marketing & Trading, SEFE Schweiz, Wingas and WIEH. These companies supplied natural gas to end-users in European countries thanks to favourable long-term contracts with Gazprom. On 11 May, the Russian government imposed sanctions on SEFE and the entities it controls, thus cutting them off from gas supplies from the east (for more detail, see '*Rosja: sankcje na wybrane unijne spółki gazowe*'). In order to be able to fulfil their contractual obligations, they must buy gas on the stock exchange at prices that are currently many times higher, which generates serious losses.

Commentary

- Since Russia began its current aggression against Ukraine, the nationalisation of the SEFE group represents another step towards the breaking of the multifaceted energy alliance between Berlin and Moscow which has been built up over the years. For Germany, above all, this means regaining full control over strategic assets in the area of gas infrastructure, especially gas storage facilities. In Germany alone, SEFE controls 28% of tank capacity, including the largest one in Rehden, which was completely emptied before the outbreak of the war, most likely for political reasons.
- From Moscow's perspective, the loss of its strategic assets means a long-term weakening of Gazprom's influence. Gazprom Germania (GG) and its related companies played a key role in the supply of Russian gas and trade to the German and European markets. Gazprom, through GG, controlled the overwhelming majority of its storage capacity in the EU. The network of companies was used by Gazprom to supply gas to end-users in European countries, in particular in Germany, Great Britain, the Netherlands, France and Belgium. Although in recent years the volume of Gazprom gas supplies has been falling steadily (23 bcm in 2019, 21 bcm in 2020), in 2018 the volumes of supplies reached 28.4 bcm. In addition, GG's subsidiaries also traded in gas purchased on European stock exchanges. Through GG, Gazprom also co-owned the gas transmission infrastructure in Germany. According to Reuters, in 2020 GG had assets totalling €8.4 billion and equity of €2.2 billion (for more detail, see '*Gazowa zimna wojna? Przejęcie przez Niemcy kontroli nad Gazprom Germania GmbH*').
- The nationalisation of SEFE is a logical consequence of the actions Berlin has taken with regard to Gazprom's strategic infrastructure assets in Germany since 24 February this year. The introduction of a trusteeship can only be temporary: ultimately the company will have to be nationalised, sold or returned to its owners. Preparations for nationalisation have been underway since the spring: back in May BMWK commissioned the establishment of SEFEH (currently a new shareholder of SEFE). The intention to use capital instruments to take over the company was suggested in June, when KfW granted it a multi-billion dollar loan (for more detail, see '*Niemcy: kolejne kroki w przejmowaniu kontroli nad spółką Gazprom Germania*'). In turn, in September, the *Spiegel Online* website suggested that the German government was considering taking over SEFE by reducing its equity.

- There are many indications that Berlin initially refrained from nationalising SEFE out of fear that Moscow would completely cut off gas supplies to Germany in retaliation. Gazprom's cessation of gas transmission to Germany at the end of August may have been a decisive factor, or possibly an acceleration of the actions it was already taking (see chart). The expiry of the six-month trusteeship period on 15 December, as well as the desire to clarify and stabilise the situation in a key company for the German gas sector, were also important factors in the timing of the decision.
- SEFE is another company in the German gas sector that is to be nationalised. By the end of the year, the process of acquiring Uniper should also be completed, although in contrast to the situation with Gazprom's assets, this move has been fully agreed with the current main shareholder (for more detail, see '*Germany: nationalisation of Uniper*'). The nationalisation of Germany's two largest gas traders which own strategic assets in the area of gas infrastructure is a radical change in the German gas sector, which so far has been dominated by private companies in which the state did not directly hold shares. After the changes in ownership, Berlin will gain new opportunities to influence the companies. In particular, the Greens will want to use this fact to direct the companies' activities towards investments in areas and technologies in line with the requirements of the *Energiewende*.
- The issue of compensation for Gazprom for the loss of its assets concentrated in the SEFE group remains unclear. According to the Energy Supply Act (*Energiesicherungsgesetz*), which is the legal basis for Berlin's actions, the Russian company should theoretically be entitled to compensation, the value of which has not been determined. However, according to information provided by BMWK, the compensation should correspond to the market value of the owner's shares before nationalisation, which – in the face of the company's disastrous financial condition (negative equity) – have just been reduced to zero. This may suggest that Gazprom will not receive any financial compensation, or that any amount it does receive will be purely symbolic. At this stage, it is unclear whether or what possible legal steps the Russian side intends to take. Gazprom has not yet commented on the actions taken by the German government.

Chart. Gas transmission to Germany, by supply directions



Source: Federal Network Agency.