Analyses OSW

CENTRE FOR EASTERN STUDIES 21.12.2023 www.osw.waw.pl

Germany: a huge contract for Norwegian gas

Michał Kędzierski

On 19 December 2023, Securing Energy for Europe (SEFE), a German state-controlled gas company, signed a long-term contract with the Norwegian Equinor energy company to supply 111 TWh of gas annually in the period from 2024 to 2034 (which is around 10 bcm calculated on the basis of figures provided by the two companies). On the basis of this agreement, the Norwegian gas will be supplied to the markets of Germany (Trading Hub Europe), the Netherlands (the Title Transfer Facility) and the United Kingdom (the National Balancing Point). The contract envisages the possibility of extending the supplies for a further five years during which Equinor could deliver to SEFE a total of 319 TWh (around 29 bcm) of gas, that is 64 TWh annually (almost 6 bcm). The official press release did not specify the contract's value; the only information provided was that it meets market standards. According to the present long-term commodity prices, the value of the contract for 2024–2034 is probably around €40 bn, and if it is extended by another five years it may exceed €50 bn.

In addition, the companies have signed a letter of intent regarding the future supplies of low-emission hydrogen from Norway to Germany (this will mainly, at least initially, involve the so-called blue hydrogen which is obtained from natural gas using carbon capture and storage technology (CCS)). In line with the agreement, Equinor is obliged to provide SEFE with 5 TWh of hydrogen annually starting from 2029, and the volume supplied will be gradually increased up to 40 TWh by 2060.

Commentary

- From SEFE's point of view, the contract signed with Equinor is a very important step towards a long-term guarantee of gas supplies, which will enable it to meet its commitments towards its European clients, in particular those in Germany. According to SEFE, its portfolio includes the sale of a total of 210 TWh of gas annually, mainly to large industrial facilities and utility companies. According to information provided by Energate Messenger, a German energy sector website, 75% of this volume is used to carry out supplies to the domestic market, and 25% to foreign markets (in Europe and Asia). As a consequence, the contract with Equinor is expected to meet more than half of SEFE's import demand in the coming years. Since autumn 2022, SEFE has been controlled by the German state (for more see '*Germany: nationalisation of Gazprom's gas assets*'). The contract will significantly reduce the company's need to purchase gas on the spot market. SEFE has been forced to make such purchases on a large scale since mid-2022, when Gazprom halted its gas supplies. Unofficial reports suggest that other sources of

gas imports will include the US (as the main supplier), as well as smaller countries such as Oman. In September 2023, SEFE also resumed its purchases of Russian LNG which it sells on to its clients in Asia (mainly the Indian GAIL company) on the basis of a contract signed prior to 2022. SEFE has insisted that this Russian LNG is not reaching the German market. However, it may reach Germany via the Dutch and Belgian gas ports.

- The new contract has significantly contributed to an increase in security of gas supplies to Germany. Since the vast majority of the contracted gas will be bound for Germany, it will secure slightly more than 10% of the German economy's annual gas consumption. In the bumper year of 2021, this consumption stood at 1027 TWh, while in the crisis year of 2022 it fell to 850 TWh. According to the most recent estimates prepared by the German Association of Energy and Water Industries (BDEW), in 2023 Germany's gas consumption decreased further to 813 TWh.

- The new contract signed by SEFE and Equinor is an element of energy cooperation between Germany and Norway, which has intensified following the outbreak of the war in Ukraine. When the concept of an energy alliance with Moscow failed, Oslo became Berlin's key partner in the gas sector. In 2023, 43% of gas delivered to Germany came from Norway (26% from the Netherlands and 22% from Belgium, while Germany's own LNG terminals accounted for 7% of its imports). SEFE is the second biggest importer of gas to Germany after Uniper. Its new contract may make Norway even more important to Germany as a source of natural gas supplies. Furthermore, efforts have been made to develop cooperation between the two countries' governments and companies in the field of hydrogen. Work is underway on the construction of an undersea gas pipeline which could be used to transport hydrogen from Norway to the German market (November 2023 saw the publication of a report recommending the construction of this pipeline, and the project was put on the list of *Projects of Common Interest*, which will enable it to receive co-funding from EU funds and accelerate its implementation). Aside from SEFE, other German energy giants such as RWE and VNG are interested in purchasing major volumes of hydrogen from Equinor.