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EXPANSION AT ANY COST

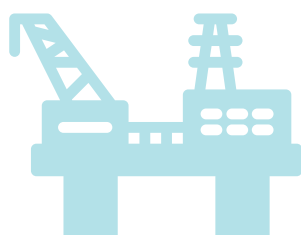
Wintershall Dea

Gas is part
of the problem,
not part of
the solution



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Introduction

The first half of 2021 broke ground for legal precedents ensuring action on climate. In March, Germany's constitutional court ruled that the country's government must ramp up its climate ambitions that were found to be partly unconstitutional. Just two months later the District Court of the Hague ruled that Royal Dutch Shell must reduce its overall emissions by 45% by 2030. These important decisions bolstered renewed calls for stricter measures to cut emissions and speed up the energy transition. All the while, Germany's largest oil and gas company Wintershall Dea is planning a significant expansion of its fossil business under the public radar.

Wintershall Dea plans a 30% increase in its oil and gas production until 2023.

The company sought to raise more capital by listing its shares on the Frankfurt Stock Exchange as part of an initial public offering (IPO).¹ The money would have been used to fund Wintershall Dea's fossil fuel expansion strategy, namely a 30% increase in its oil and gas production in less than two years.² This stands in stark contradiction to the most

authoritative energy and climate scenarios. According to the recently published net zero pathway by the International Energy Agency (IEA), the development of new oil and gas resources - except projects already committed as of 2021 - is incompatible with the goal of limiting global warming to 1.5 C°. ³ Instead of phasing out its fossil fuel dependence and investing in alternative sectors, Wintershall Dea is further entrenching its fossil business model. Meanwhile, the company is advocating for more dependence on fossil gas in the political arena, pushing the "bridge-fuel" narrative on all communication channels.

This background briefing provides a factual basis for investors and other stakeholders of Wintershall Dea. It briefly describes and analyses Wintershall Dea's climate destructive business strategy and lack of climate ambitions. It also highlights a number of highly controversial business activities that pose excessive risk and harm to frontline communities.

Recommendations for Wintershall Dea's stakeholders:



- **Investors** should divest from Wintershall Dea and reject buying its shares during and after its Initial Public Offering. The company's business model is not in line with the Paris Climate targets. Even Fatih Birol, executive director of the IEA, warns that continued financing of oil and gas projects may turn out to be "junk investments".
- **Asset managers** have a fiduciary duty not to invest in the company, as the resulting fossil fuel lock-in would harm their beneficiaries. Further investments will aggravate systemic risks, including future financial crises and catastrophic climate change.
- **Financial institutions** must cease providing financial services to Wintershall Dea, including insurance, underwriting, and lending. Wintershall Dea's assets will turn out to be liabilities in the foreseeable future. Deutsche Bank, Morgan Stanley, and Goldman Sachs must retreat as arranging banks in Wintershall Dea's IPO.
- **The German government** and **the EU Commission** must set a clear fossil fuel phase-out strategy, including production and consumption-side measures. Oil consumption and production must end by 2040 and gas by 2035 respectively. Regulations must be drawn up to initiate a fast, managed, and just phase-out of oil and gas production.
- **NGOs, civil society, social movements** and **journalists** must expose Wintershall Dea's fossil fuel expansion business model. Phasing out gas and oil production quickly and fairly must be an integral part of Germany's energy transition.

1 <https://www.reuters.com/article/basf-results-oil-ipo-idUSL5N2AS4N0>

2 https://wintershalldea.com/sites/default/files/media/user-23/files/Factsheet%20Wintershall%20Dea_en.pdf

3 <https://www.iea.org/reports/net-zero-by-2050>

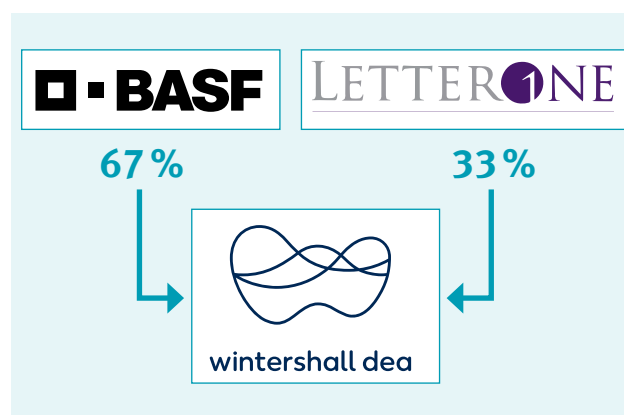


Production countries and production sites of controversial projects of Wintershall.

Company Overview

Wintershall Dea (hereafter Wintershall) is Germany's largest oil and gas company. It was created in May 2019 by a merger of *Wintershall Holding GmbH*, a subsidiary of chemical giant BASF, and Dea. Dea used to be part of RWE until it was bought by LetterOne, an investment firm of four Russian oligarchs under the leadership of Mikhail Fridman and Pjotr Aven. Aven was featured prominently in the Muller Report for his role in the Kremlin's attempts to create a communication channel to the newly elected Trump administration in 2016.⁴ The manager of LetterOne and Chairman of Wintershall's Supervisory Board is Lord Browne of Madingley, the former CEO of British Petroleum. His management style is characterised by high-risk expansions and cuts in costs and staff. This strategy was a key factor that contributed to a series of major accidents in BP-facilities, including the 2010 Deepwater Horizon oil disaster.⁵

Soon after the merger, Wintershall announced its plans for an Initial Public Offering (IPO) on the Frankfurt Stock Exchange. According to Reuters, Deutsche Bank has been named as global coordinator for the listing, while Morgan



Stanley and Goldman Sachs are seen front-runners for further roles.⁶ Due to the Covid-19 pandemic and the unstable oil and gas prices, the IPO was postponed. Another delay was announced in June 2021. This time due to the poor performance of oil and gas companies on the financial markets. Tightening climate measures and cheaper renewables will likely make this a permanent trend.

Wintershall is primarily an upstream oil and gas company. Its core business activities are field exploration, develop-

⁴ <https://www.justice.gov/archives/sco/file/1373816/download> p.163-166

⁵ <https://www.govinfo.gov/content/pkg/GPO-OILCOMMISSION/pdf/GPO-OILCOMMISSION.pdf>

⁶ <https://www.reuters.com/article/us-basf-wintershall-ipo-idINKCN1S11VI>

ment, and production. Its most important production sites are in Russia, Norway, and Argentina. Major expansion projects exist in Norway, Russia, Mexico, Brazil, Argentina, and the United Arab Emirates.⁷ Via its subsidiaries WIGA and GASCADE, Wintershall also operates an extensive fossil gas pipeline network in Germany and other European countries. The company is an important financier of the controversial pipeline project Nord Stream 2.

The importance of Russian gas production and the long-term partnership with Russia's state-owned company Gazprom can hardly be overstated. Since the collapse of the Soviet Union in 1991 onwards, *Wintershall Holding GmbH* and Gazprom have worked in a symbiotic relationship. By providing capital, expertise and political networks, Wintershall helped Gazprom become an important supplier of fossil gas to the growing German economy. Wintershall, in return, profited from selling Russian gas on German markets and increasingly from participating in upstream activities.⁸ In two successive asset swaps in 2007 and 2013, Gazprom acquired gas production, transportation,

and storage assets in Germany and Western Europe. In return, Wintershall acquired shares in the Yuzhno Russkoye and Achimov gas deposits in western Siberia. Wintershall participates in the JAGAL, Nord Stream 1, and Nord Stream 2 pipelines that connect these fields to the German and European gas markets.⁹

The recent history of Wintershall was marked by the Covid-19 pandemic, the preparations for the IPO, and a massive expansion in exploration and development projects. The 2020 oil and gas price shock was a major blow for the company and made Wintershall drag down the bottom-line of its parent company BASF in that year.¹⁰ In early 2020, Wintershall announced its plans to increase its oil and gas production from 590,000 barrels of oil equivalent per day to 750,000 – 800,000 barrels of oil equivalent per day until 2023, which is akin to a 30% increase of production in two years¹¹. If these plans go through, it will produce more oil and gas than the combined consumption of Portugal and Greece.¹²

7 <https://www.thenationalnews.com/business/energy/germany-s-wintershall-dea-could-float-up-to-30-of-its-shares-next-year-1.937774>

8 <https://www.zeitschrift-osteuropa.de/hefte/2013/7/ziemlich-beste-freunde/>; Michael Sander. (2010). Deutsch-russische Beziehungen im Gassektor. S.95 www.nomos-shop.de/titel/deutsch-russische-beziehungen-im-gassektor-id-79491/

9 See Urgewald's report about Nord Stream 2 for further details: <https://urgewald.org/nordstream2-report>

10 <https://report.basf.com/2020/en/managements-report/basf-group-business-year/results-of-operations/net-income-from-shareholders-financial-result-and-income-after-taxes.html>

11 https://wintershalldea.com/sites/default/files/media/user-23/files/Factsheet%20Wintershall%20Dea_en.pdf

12 <https://www.eia.gov/tools/faqs/faq.php?id=709&t=6>

Climate Ambitions

Almost all fossil fuel production and consumption must end in the next two decades to keep global warming below 1.5 degrees. To achieve this, it is necessary to couple the phase-out of fossil fuel consumption with a managed and fast decline of fossil fuel production. Such a two-sided approach, coupled with improvements in energy savings and energy efficiency, can create the necessary incentives to switch to renewable technologies, prevent asset stranding and financial lock-in effects.¹³ The UNEP Production Gap report shows that global coal, oil, and gas production must decline by roughly 6% each year to stay below 1.5°C global warming.¹⁴ The recently published 1.5°C scenario of the IEA comes to a similar conclusion. In its executive summary the agency states: “There is no need for investment in new fossil fuel supply in our net zero pathway”¹⁵.

Despite this evident need to phase out fossil fuels quickly, Wintershall projects a 30% increase in its oil and gas production until 2023.¹⁶ The company puts forward a number of arguments why these expansion activities were compatible with climate ambitions. It pledges to (1) manage methane emission at its production sites; (2) make offset-payments; (3) develop Carbon Capture and Storage (CCS) technologies; and (4) produce fossil-gas based hydrogen. But none of these pledges will be able to significantly reduce its emissions:

(1) Methane emission controls at the production sites

Methane emissions in the oil and gas supply chain contribute significantly to the overall CO₂-footprint of these fossil fuels. Over a period of 20 years, methane is 87 times more potent as a greenhouse gas than CO₂.¹⁷ As fossil gas consists primarily of methane, its production is associated with particularly high methane emissions. Wintershall acknowledges the problem with methane and has pledged to curb emissions at its production sites. However, the company neither discloses how, if at all, it measures

emissions nor how it intends to mitigate them.¹⁸ Looking at common industry practices, it is likely that Wintershall uses estimated values that were repeatedly shown to underestimate actual emission values. Wintershall’s pledges do not include the significant methane emissions that occur after the production, especially in pipelines and compressor stations. A recent publication by the Clean Air Taskforce revealed significant methane leakages along the German gas infrastructures of GASCADE, a subsidiary of Wintershall. These had not been detected or reported until then. New, satellite-supported measuring technologies show a 40% increase in methane emissions between 2019 and 2020 that occurred in the pipelines that connect the western Siberian gas fields to Europe.¹⁹ Wintershall is partly responsible for these emissions, as it produces the gas in Russia and further transports and markets it through its German pipeline networks.

(2) Offset-payments

Wintershall intends to offset small parts of its upstream emissions through payments for afforestation projects and other “Nature based solutions”. These payments cannot free Wintershall from its responsibility for its own emissions and the need to transition away from fossil fuels. These projects tend to have devastating impacts on affected people and communities, causing displacement and the destruction of livelihoods. If poorly monitored and executed, they even increase emissions by degrading ecosystems.

(3) Carbon Capture and Storage (CCS) technologies

According to Wintershall, CCS technologies would allow the utilisation of fossil gas (for example for the production of *blue hydrogen*), while capturing associated CO₂-emissions. However, considering the history of this technology, it is highly unlikely that CCS will develop sufficiently in the foreseeable future to play a significant role in the energy transition. Highly subsidised pilot CCS projects have been

13 <http://priceofoil.org/content/uploads/2020/09/OCI-Big-Oil-Reality-Check-vF.pdf>

14 UNEP. Production Gap Report 2020. <https://productiongap.org/2020report/#R1>

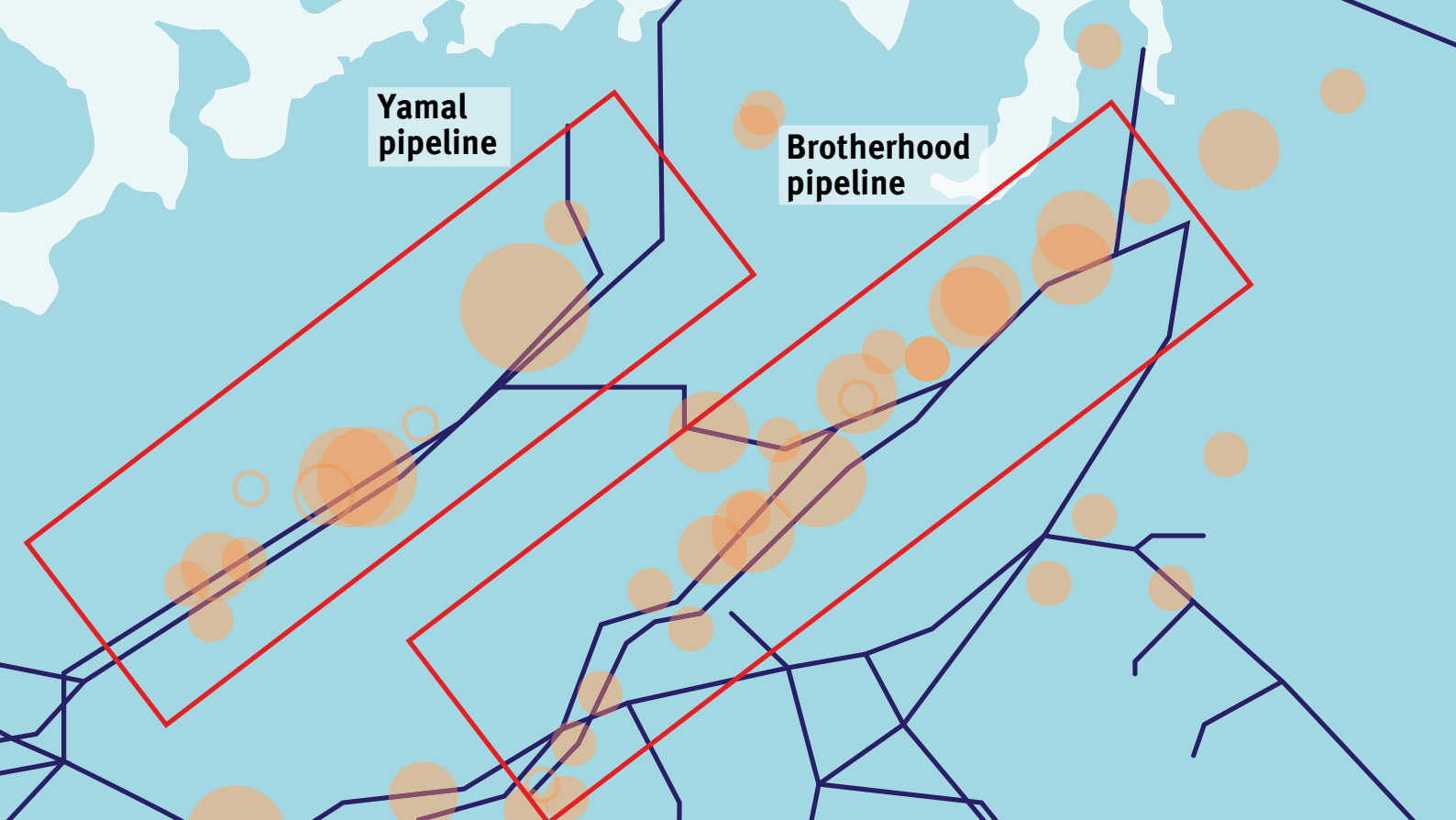
15 <https://iea.blob.core.windows.net/assets/ad0d4830-bd7e-47b6-838c-40d115733c13/NetZeroBy2050-ARoadmapfortheGlobalEnergySector.pdf> p. 21

16 https://wintershalldea.com/sites/default/files/media/user-23/files/Factsheet%20Wintershall%20Dea_en.pdf

17 https://www.ipcc.ch/site/assets/uploads/2018/02/WG1AR5_Chapter08_FINAL.pdf

18 Urgewald did not receive a response after requesting this information. Marktabfrage: Methan-Emissionen von Erdgas-Unternehmen. https://www.duh.de/fileadmin/user_upload/download/Projektinformation/Energiewende/Positionspapier_Markabfrage_Gas_20210316_FINAL.pdf

19 https://www.esa.int/ESA_Multimedia/Images/2019/06/Nitrogen_dioxide_over_Siberian_pipelines, https://www.esa.int/Applications/Observing_the_Earth/Copernicus/Sentinel-5P/Monitoring_methane_emissions_from_gas_pipelines



Emission hotspots from the Yamal-Europe and Brotherhood pipelines, monitored by satellite data. Source: https://www.esa.int/Applications/Observing_the_Earth/Copernicus/Sentinel-5P/Monitoring_methane_emissions_from_gas_pipelines

around in Europe and the US for several decades.²⁰ **None** of these developed into commercially viable CCS projects mainly due to the extremely high associated costs.²¹ In most cases, captured CO₂ is injected into depleted oil fields to boost oil production, effectively negating the climate benefits of the process.²² Despite many decades of research and multi-billion public subsidies, CCS remains too expensive to compete with renewable energy. Wintershall's investments in CCS are dwarfed by its spendings for oil and gas exploration and development projects.

(4) Fossil-gas based hydrogen production

Wintershall is lacking a strategy to diversify its fossil fuel-reliant portfolio and is portraying hydrogen production from fossil gas as a possible solution. One of the compa-

ny's suggestions is to produce *blue hydrogen* by splitting off CO₂ from fossil gas and storing the emissions via CCS. Any form of hydrogen production that takes fossil gas as a feedstock comes with a high carbon footprint because of fossil gas supply chain methane emissions. This approach would also face the same technical and economic barriers as past CCS projects, as explained above. A second suggestion is to further develop *methane pyrolysis* in which elementary carbon is split off from fossil gas under much higher energy losses. Neither of these suggested technologies has been successfully implemented on a commercial scale. Both CCS and hydrogen technologies are speculative, undeveloped solutions that can hardly compete with readily available technologies such as solar and wind power generation.

20 <https://www.ciel.org/reports/fuel-to-the-fire-how-geoengineering-threatens-to-entrench-fossil-fuels-and-accelerate-the-climate-crisis-feb-2019/>

21 <https://op.europa.eu/en/publication-detail/-/publication/07376e1f-e62d-11e8-b690-01aa75ed71a1/language-en/format-PDF/source-search>

22 https://ieefa.org/wp-content/uploads/2018/11/Holy-Grail-of-Carbon-Capture-Continues-to-Elude-Coal-Industry_November-2018.pdf; <https://www.ciel.org/reports/fuel-to-the-fire-how-geoengineering-threatens-to-entrench-fossil-fuels-and-accelerate-the-climate-crisis-feb-2019/>;



Extraction of unconventional oil in Vaca Muerta, Argentina. @Shutterstock_SobrevolandoPatagonia

Lobbying-activities

Wintershall is actively and successfully influencing climate and energy policies in the EU. Dawn Summers, Wintershall's Chief Operating Officer, is coordinating the gas industry's lobby activities as the president of the European trade association, GasNaturally. She is also President of the European Board of the International Association of Oil & Gas Producers, IOGP. Wintershall's CEO Mehren is promoting the reliance on fossil gas in (promoted) opinion pieces²³ and direct communications²⁴ with high-level

politicians. A central part in Wintershall's advocacy strategy is the creation of a "bridge fuel"-narrative that portrays fossil gas as a necessary "technology" towards a low carbon economy. The narrative pivots the arguments of rising energy demand and the possibility to decarbonise fossil gas through CCS and hydrogen technologies. Through this controlled messaging, Wintershall is influencing the public discourse around energy and climate with the goal to prolong the lifetime of its fossil business model.

Controversial activities

Fracking gas production in Argentina

Wintershall is a key player in the expanding hydraulic fracturing (fracking) industry in Argentina, primarily in the Vaca Muerta region. Wintershall was among the first companies that produced fracked hydrocarbons in the country and it remains the fifth largest gas producer until today.^{25 26} The fracking industry in Vaca Muerta is opposed by mass civil uprisings, as people feel the economic, environmental, and health impacts of oil and gas extraction. The most severe impacts are water depletion, drinking

water contamination, air pollution from Volatile Organic Compounds (VOCs), associated negative impacts on agriculture, the production and disposal of toxic waste, and fracking-induced earthquakes.²⁷

An investigation by Greenpeace shows that Wintershall is a customer of the company Treater, which illegally dumped toxic oil sludge from their production sites just 5km outside the town of Añelo, a town near Vaca Muerta.²⁸ In response, representatives of the Mapuche Indigenous Peoples

23 <https://www.euractiv.com/section/energy-environment/opinion/german-climate-protection-act-gas-is-the-answer/>

24 <https://wintershalldea.com/de/newsroom/appell-die-politik-energiemarkt-zukunftsfaehig-und-sozialvertraeglich-gestalten,https://businessportal-norwegen.com/2020/09/29/european-green-deal-wintershall-dea-fordert-kickstart-mit-gas/>

25 <https://ejes.org.ar/economistas/InfoEnero2021.pdf>

26 https://wintershalldea.com/sites/default/files/media/files/200317_Factsheet_WD_Argentina_en.pdf

27 <https://opsur.org.ar/2019/03/23/sismos-en-vaca-muerta-las-sospechas-recaen-en-el-fracking/>; <https://urgewald.org/five-years-lost>

28 <https://greenpeace.org.ar/ph/Our-Investigations.pdf>



Toxic Fracking Waste Dumps in Vaca Muerta. ©Greenpeace

filed a criminal lawsuit against involved actors, including Wintershall's operating partners Total, YPF, and PAE. The claimants argue that their health and environment was seriously endangered by these illegal activities. In the same complaint, they state that their province was turned into a "sacrifice zone for the [...] economic interests of the large companies that control the hydrocarbon industry".²⁹

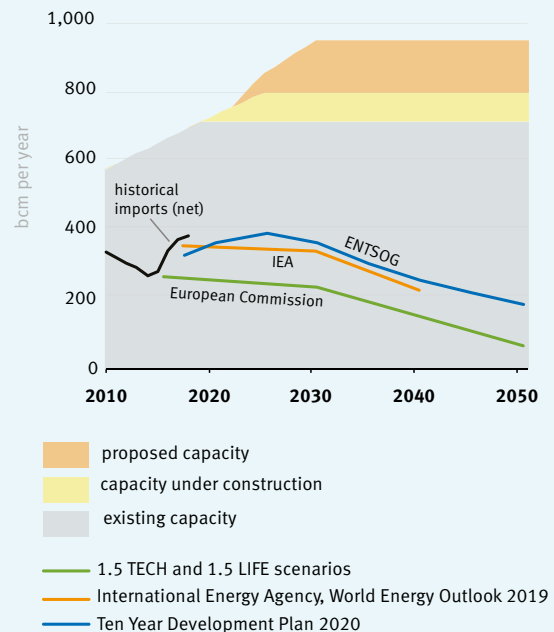
Nord Stream 2

So far, Wintershall contributed €730 million to the construction of the Nord Stream 2 pipeline system. The construction of Nord Stream 2 is strongly opposed by the European Parliament, the US government, several Eastern European countries including Poland and Ukraine, as well as civil society and environmental organisations. US-imposed sanctions have already forced several companies to leave the project. Lawsuits by German NGOs have further impeded the construction.

Nord Stream 2 is primarily a geopolitical project by the Russian government that will compete with the already existing pipeline systems passing Ukraine and Poland. Its completion will give Russia more leverage against these countries and a stronger position in the war between Russia and Ukraine.

Nord Stream 2 would add a fossil gas import capacity of 55 bcm to an already heavily inflated European gas infrastructure (see graphic below). For comparison, the German economy consumed 88.7 bcm in 2019³⁰. As gas consumption in the EU must be phased out by 2035, the Nord Stream 2 AG and its investors are facing massive asset-stranding risks.

EU natural gas imports and import capacity



Source: www.globalenergymonitor.org/wp-content/uploads/2020/02/Gas_at_a_Crossroads_EU.pdf, p.9

You can find more information on Nord Stream 2 in the Urgewald paper "Climate Disaster, stranded asset, geopolitical hornet's nest – Why Nord Stream 2 is a bad deal." <https://urgewald.org/nordstream2-report>

High-risk offshore and Arctic projects

Much of Wintershall's planned expansion is taking place in high-risk offshore projects. The company is exploring new fields in the Norwegian Barents Sea that lies within the Arctic Circle. On the other side of the planet, Wintershall is developing the world's southernmost offshore-platforms in the Patagonian sea, close to Antarctica. Drilling off the coasts of Mexico and Brazil is putting the sensitive coast-lines of these countries at risk. Accidents in any of these projects would be devastating for surrounding ecosystems and communities that depend on their services. As sea levels rise and storms become stronger and more frequent, risks will increase over time. This is particularly true for the sensitive Arctic Sea that has already witnessed much higher temperature increases compared to other parts of the world. 55% of Wintershall's production is located in the Arctic.³¹

²⁹ <https://greenpeace.org.ar/vacamuerta/Denuncia-Penal-TREATER.pdf>

³⁰ <https://www.statista.com/statistics/703657/natural-gas-consumption-germany/>

³¹ urgewald analysis based on data from Rystad Energy



Protest in front of Wintershall's headquarter in Kassel, Germany. ©KligK-Klimagerechtigkeit Kassel

Conclusion

Wintershall Dea is showing no ambitions to adapt its business model to the pressing challenges of the climate crisis. Instead of diversifying its portfolio and decommissioning its fossil fuel assets, it is rapidly increasing its oil and gas investments. Its “climate ambitions” do not tackle the actual problem, which is fossil fuel production. Its heavy reliance on offshore and unconventional projects exposes communities and ecosystems to unacceptable harm and risk. Wintershall’s advocacy and public rela-

tions activities have a chilling effect on already insufficient climate policies in Germany and the EU. Considering these points, investors and other financial institutions that take the systemic risks of the climate crisis seriously must not provide capital to the out-dated business of Wintershall Dea. They would load unnecessary risks onto their own portfolios and further inflate the growing carbon bubble of future stranded assets.



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Urgewald is an environmental and human rights organization that challenges banks and corporations when their activities harm people and the environment.
Our guiding principle: Whoever gives the money bears the responsibility for the business.

Additional reports and information on our campaigns can be found at
urgewald.org and coalexit.org

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D-48336 Sassenberg

Tel.: +49 2583 304920

www.urgewald.org

Authors: Lennart Tiller

Editing: Jacey Bingler, Ysanne Choksey

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