Europe Faces an Exodus of Energy-Intensive Industries

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Soaring energy costs in Europe are shutting down businesses and threatening a bloc-wide recession. Yet not everyone accepts this fate. Some companies are moving to cheaper locations: the U.S. Steel giant ArcelorMittal said earlier this month that it would slash by half production at a steel mill in Germany and a unit at another plant, also in Germany. The company said it had based the decision on high gas prices.

Separately, ArcelorMittal more recently warned it expected its steel output for the fourth quarter of the year to be 1.5 million tons lower than it was in the final quarter of 2023, again citing excessive prices along with slumping demand.

At the same time, ArcelorMittal earlier this year announced it had plans to expand a Texas operation, describing the state as a "region that offers highly competitive energy and, ultimately, competitive hydrogen." It is just one of the Europe-based companies that are beginning to see the benefits of growing in the United States, according to a report by the Wall Street Journal's David Uberti.

Uberti cites industry executives as saying that it has not exactly been a difficult decision to make. Basically, according to the report, it comes to a simple dilemma between folding in the face of exorbitant energy bills and moving to a much cheaper energy environment, complete with fresh incentives for certain industries.

Chemicals, batteries, green energy—these are all areas set to benefit substantially from the Inflation Reduction Act passed last month. No wonder, then, that companies active in these areas see it as a good idea to either move or expand in the United States.

Meanwhile, in Europe, more and more companies are switching into survival mode. That's

because, for a lot of them, the time is coming to renew their electricity supply contracts with utilities. Thanks to energy inflation, these are set to be much higher than the contracts for the current year, with front-year prices reaching over $1,000 in France and Germany.

The New York Times' Liz Alderman wrote in a recent story that energy-intensive industries such as manufacturing and fertilizer production were especially vulnerable precisely because of their higher energy needs. She cited the case of a glass-making major, Arc International, which is also shutting down production units to cope with higher energy costs.

The European Commission has promised to help by capping the revenues of electricity generators that use a primary source of energy other than gas, and taxing the "excessive" profits of oil, gas, and coal companies. According to the EC, raking in cash under the current circumstances was wrong, even though profits in themselves were something good.

Plans are to collect some 140 billion euros—almost equal to the same sum in dollars—to distribute among households and struggling businesses. Critics, however, note that this will not be enough to save companies from going under. European Aluminium, the industry association, even said energy costs could result in the breakdown of the aluminum industry in Europe.

"I think we'll muddle through two winters," the chief executive of refractory products maker RHI Magnesita told the Wall Street Journal. However, if gas doesn't get cheaper, Stefan Borgas said, "companies will start to look elsewhere."

It looks like businesses packing and leaving for cheaper jurisdictions is yet another unintended consequence of the policies favored by European governments, especially in the energy department. It is also one more risk for the survival of the bloc as a competitive industrialized formation in the future. And this risk presents one more conundrum for governments and the administration in Brussels to solve in short order.

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