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INSTITUTE OF ENERGY FOR SOUTH-EAST EUROPE

# IENE Comment

## Chemical exodus

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*By Irina Slav**

“Government policies will shut all petrochemicals in Europe. All our major competitors are planning for withdrawal from Europe as government has failed to act time after time.”

The stark warning comes from a letter, penned by the CEO of British energy and chemicals company Ineos, one of the few remaining masochistic players in the UK section of the North Sea. The letter is from late February and things have not got better since then — for the UK or Europe. In fact, they have got worse. An exodus is underway.

Jim Ratcliffe addressed his open letter to all European politicians, saying something that a lot of people know all too well: soaring energy costs are chasing away businesses.

In April this year, the International Business Times published an article saying petrochemicals producers in Europe were “battling for survival”, saying that said energy costs, combined with high taxes, massive red tape, and “a lack of government strategy” were stifling the industry.

The IBT was being delicate with regard to government strategy. Europe actually has a government strategy for petrochemicals. It wants to kill them to clear up space for transition players. Never mind that those same players depend on the petrochemicals industry. Never mind that said industry contributes some 155 billion euro to the bloc’s GDP. Well, the political class might yet decide to start minding these facts.

“Chemical companies are putting European assets up for sale as they review their operations in the region to cope with high energy prices and competition from newer plants in Asia and the Middle East,” the FT reported today, citing Saudi Sabic plans to exit Europe, as related by unnamed sources. We’re talking about assets that, per the report, generate revenues of $3 billion annually. Imagine just how bad the cost situation must be to consider giving up these revenues — which translate into EBITDA of some $350 million.

The report went on to say that other petrochemicals majors including LyondellBasell, Shell, and BP were also studying asset sales for Europe in a bid to capitalise on capacity growth elsewhere — and escape exorbitant energy costs, courtesy of Europe’s transition strategy.

“What was the decisive factor that made companies consider an exit from their assets? It was higher energy costs,” the head of chemicals research at investment bank Berenberg told the FT. Well, you don’t say.

Eni is shutting down two olefin plants in Italy, with one report on the news noting that "the Italian firm joins a growing list of companies closing European olefin and polyolefin facilities that are older, are smaller, and have higher operating costs than newer facilities built in the US, China, and the Middle East."

Polish Orlen has reconsidered an expansion of an olefin plant that should have become the largest olefin investment in Europe but no longer makes economic sense. We can all guess why without reading the reports.

Toluene prices surged earlier this year on higher oil prices, if you could believe it. But oil prices are now down — unlike gas prices, which contribute a solid portion to toluene production costs. But Europe is on it. Brussels plans to… reduce energy costs and stimulate demand for local chemical products with its latest green regulation, the same one that proposes forcing businesses to buy "sustainable" local products that have a higher price tag because they were made with low-carbon electricity or at least heavily taxed coal and gas electricity.

It's a miracle Sabic and the rest of the petrochemicals majors still have any business in Europe, really, especially now that competition for electricity is heating up. The phrase "competition for electricity" is not something one would expect to hear used for what we like to call the developed world, yet this is exactly what is happening in Europe, as FT columnist Richard Milne wrote earlier this month.

Industries are competing for limited electricity resources, Milne wrote, leading to actual conflicts between entities such as data centre operators and none other than defence contractors, which recently took centre stage in EU policies as the bloc tries to rearm, ready to spend hundreds of billions of euro on the endeavour. But said endeavour would require massive amounts of energy – the supply of which has become problematic thanks to Brussels' low-carbon push.

In what smacks of some rather refined but cruel irony, the chemicals industry is quite important for the defence industry, as it is for the wind and solar industries. While this does not tend to get widely advertised – or advertised at all, really – wind and solar are heavily reliant on petrochemicals. Wind turbines and solar panels and inverters feature a lot of plastics, paints, and oils derived from crude oil and gas. A chemical exodus from Europe will only deepen its reliance on imports – from China. Now is a really good time to start paying attention for those making the decisions, because once the petchem producers leave, it would take a lot more effort to convince them to return.

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