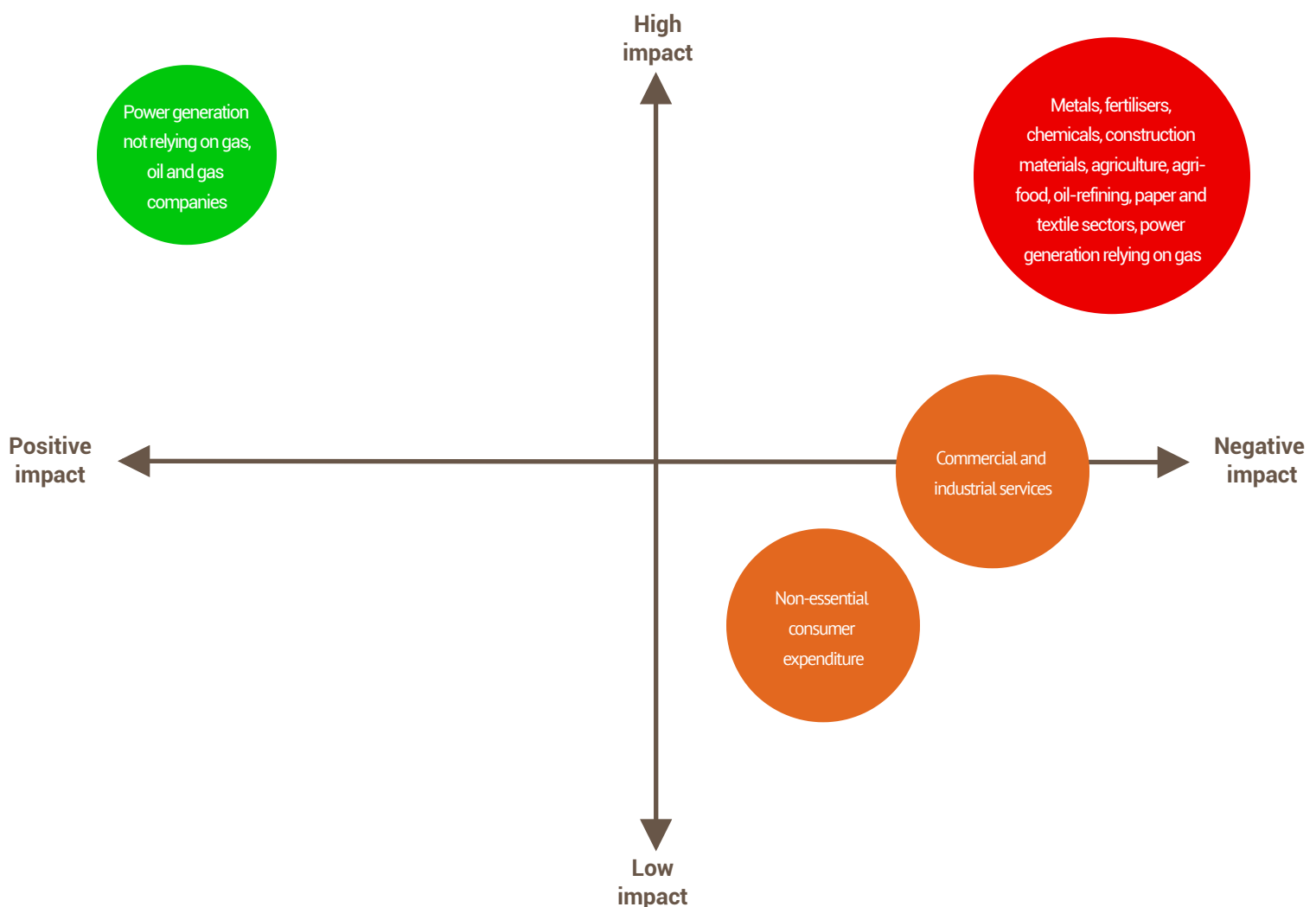


# White paper: how to navigate your export business through the energy crisis

The energy crisis is everywhere. It is affecting people, sectors, countries... If you are an exporter, we understand that you are worried about your business and wondering how to navigate everything that is going on in the world. As complex as the situation might be, we tried to make a simple and clear overview to help you with all this.

## All sectors are not created equal...

Let's start with a general overview:



Natural gas prices have been on the rise in Europe ever since the beginning of the war in Ukraine. In general, we can say the following: **the more energy-dependent the sector, the stronger the impact of the crisis**. Production cuts have already occurred in several sectors. Unsurprisingly, client sectors of those affected sectors are expected to start feeling the impact soon as well, in the form of **higher input costs** and **possible shortages of materials**.

**Metals, fertilisers, chemicals, construction materials, agriculture, agri-food, oil-refining, paper and textile sectors and power generation relying on gas**



Soaring energy prices affect different sectors in different ways. The **most vulnerable sectors** are those that rely on gas for production. This group includes metals – such as steel, aluminium and zinc – fertilisers, chemicals, construction materials – such as cement, glass and ceramics – agriculture, agri-food, oil-refining, paper and textile sectors and power generation relying on gas. All these sectors are in the top right corner of the chart, meaning they are experiencing a strong, negative impact.

When it comes to the secondary impact on client sectors of the sectors mentioned above, the most vulnerable sectors are: **construction, automotives, machinery and equipment, and transport services.**

**Some facts and figures:**

**9** steel plants in the EU had fully or partially paused their steel production at the end of July 2022.<sup>1</sup>

**15** steel plants had suspended or were planning to suspend their steel production at the beginning of September.<sup>1</sup>

According to market estimations, ArcelorMittal initiated most of those **production halts**. The reason for all this is that **EU steel plants** suffer in various ways:

- they become **less competitive** since their energy costs are higher than those of plants located in other parts of the world;
- they suffer from **weak demand**, partly due to the slowdown in China.

If the energy crisis continues to deepen, the upcoming winter might deliver the fatal blow to the European steel industry.

**70%** of the European fertilisers capacity was offline in October 2022 according to Fertilisers Europe.

**90%** of the trucks on the road in Germany need AdBlue – an exhaust cleaning fluid used to reduce pollution – to be able to keep operating under more strict environmental rules. The largest producer of AdBlue in the country is producing only a fraction of its normal level, which is leading to shortages and affecting the **transport sector**.

<sup>1</sup> Source: GMK Center

## Commercial and industrial services



Commercial and industrial services are expected to be **less affected**, so are therefore in the middle of the chart, representing a medium, yet still negative impact.

Increasing energy prices are fuelling inflation as they increase costs in supply chains. If wages are adapted following inflation, this usually takes longer. Therefore, **consumer confidence** has dampened and all sectors directly depending on **non-essential consumer expenditures** are expected to start feeling the impact as well. These sectors include **retail, hotel and catering, tourism and consumer electronics** and will most likely suffer from lower demand.

The combination of the darkening economic outlook and the heavy burden of energy costs is causing **business confidence** to go down. The downward trend has already become noticeable.



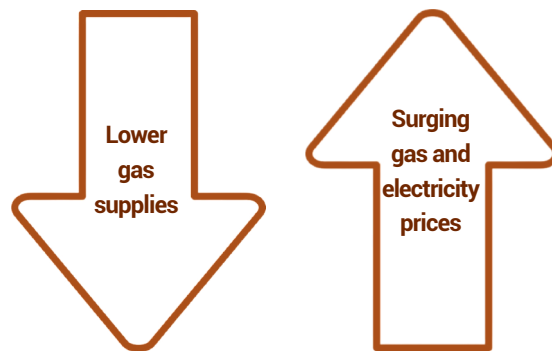
## Power generation (other than gas), and oil and gas companies



Last but not least, a few sectors will **benefit from high energy prices**, which is why they are in the top left corner of the chart: they experience a high and positive impact. Any sectors active in power generation not relying on gas can expect a boost in demand, and of course, oil and gas companies are benefiting from the high prices we are currently paying.

## Not all countries are in the same boat...

The war in Ukraine is affecting the European gas market in two ways:



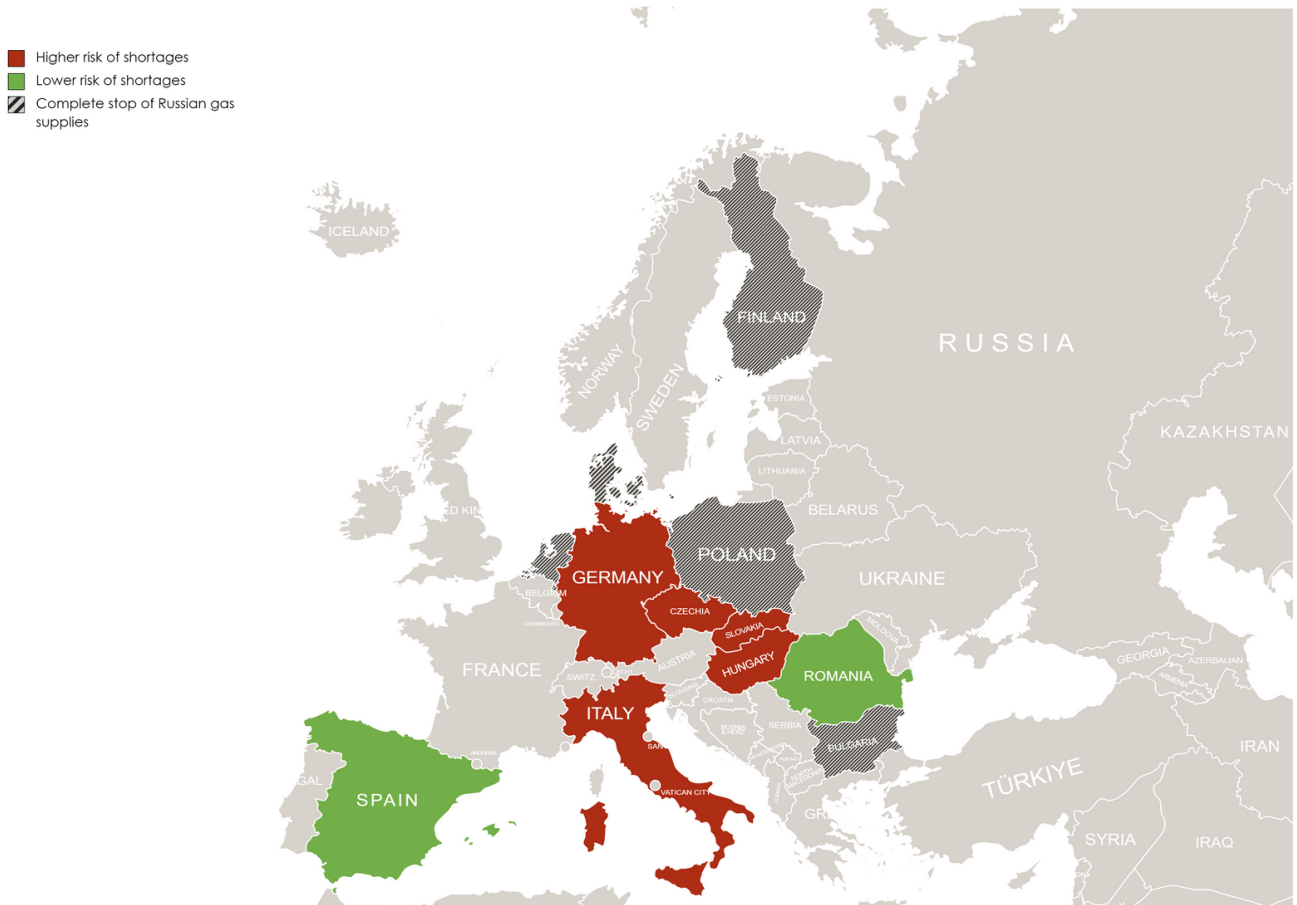
Russia has cut its gas supplies to Europe by some 80% since the start of the war. Last September, Russia decided to **cut off supplies** through the **Nord Stream 1 pipeline** for an indefinite period of time. This has a huge effect as the pipeline is **critical for Europe**.

Additionally, Russia is threatening to shut off the **Ukrainian transit**. This has made Europe worry more and more about an energy shortage this winter. Because of those worries, all countries were in a rush to fill up their storages, which led to a **record high in natural gas prices** at the end of August.

In the meantime, prices have **declined again**, but they remain at a **high level**. This also pushes up all **other international gas prices**, because it makes the global demand for LNG soar. However, as the soaring demand in Europe is much higher than in other regions of the world, this leads to a deteriorating competitiveness gap, in particular with the US and Asia.

**Poland, Bulgaria, Finland, Denmark and the Netherlands** already experienced a **complete stop of Russian gas supplies**. So far, existing and new gas infrastructures have been able to compensate for those cuts. However, if Russia fully shuts down its gas deliveries to Europe, some countries might be left unsupplied, and this could fragment the European market.

When we look at Europe, Germany and Italy are most at risk of shortages. Besides those two, Czech Republic, Slovakia and Hungary are equally at risk of shortages due to their heavy reliance on Russian gas. Spain and Romania, on the other hand, are in the better position.



Let's take a look in more detail:

More vulnerable



**Germany** and **Italy** are most at risk of shortages, for various reasons:

- they highly depend on Russian gas;
- their **industrial sectors** are very important;
- in Italy, gas has a high share in power generation; and
- both countries are subject to **technical bottlenecks** in the transmission of gas.



The **Czech Republic, Slovakia and Hungary** are equally at risk of shortages as they heavily rely on Russian gas. On top of that, their main **alternative routes** pass through constrained countries (Germany and Italy).

If Russia decides to fully shut down its gas deliveries to Europe, providing these five markets with gas would lead to extremely high costs.

More benefits



**Spain** is in a stronger position as it is Europe's most important LNG hub.

**Romania** as well is less vulnerable as it has a large domestic production which covers 80-90% of the country's consumption. In addition, the country is working on offshore gas projects in the Black Sea.

## What will the future bring?

Chances are that at least either a sector or a country you are active in, is affected by the energy crisis. While for all European countries, gas prices will **remain high and volatile for some time**, the actual levels will depend on various factors:

- **political decisions** at country level and at EU level, e.g. implementing a price cap;
- the further evolution of **Russian supplies**; and
- how cold the upcoming **winter** will be.

For some countries it will be easier than for others to implement measures to soften the impact for households and businesses. Therefore, the EU would need to take a common stance that is beneficial to all of its member states.

If 2022 is already challenging, 2023 might turn out to be even more challenging as the **current reserves** should last at least until the end of March 2023, so they will help us **get through this winter** already. Many companies, however, need to **renegotiate their energy contracts** by the end of 2022 and will be forced to charge the higher energy costs to their customers. Challenging months lie ahead of us, during which you can still rely on Credendo for turning your uncertainties into opportunities.

### Summed up

The current prices and situation are volatile, which is stressful for all of us. With regard to your export business, the best thing to do is to always keep your head cool. This is what we would recommend:

1. Follow the news to stay in the know about the **latest evolutions**, but avoid fearmongering articles.
2. Try not to put all your eggs in one basket. In other words: **diversify** where you can.
3. Check **Credendo's latest analyses and ratings**, especially if you are looking at new markets or new sectors.
4. Contact Credendo if you want to check if your business is **adequately insured** or if you need **more specific advice**.

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