voestalpine AG
The Federation of Austrian Industries

Press Release

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Study: The stealthy exodus of energy-intensive industries threatens

Energy-intensive companies are steadily moving out of Germany and Austria. This is the conclusion of a current study by the German Handelsblatt Research Institute, undertaken on behalf of the Federation of Austrian Industries (IV) and voestalpine AG. According to the study, energy-intensive industries are directly investing more abroad whilst letting their capital stock shrink at home.

The results of the current Handelsblatt study show clearly the challenges faced by regional economic policy in Germany and Austria: In both these countries labor costs and energy costs are some of the highest in the world. EU environmental protection measures and the demographic developments which are leading to a desperate shortage of specialist skills make the conditions for industry even tougher. As a result, industrial enterprises are increasingly relocating their investments abroad. Consequently, the EU's goal of increasing the share of overall value creation contributed by industrial manufacturing from its current level of 15.1% (2013) to 20% by 2020 now appears a distant prospect.

“Over the past years the political framework conditions for Europe's energy-intensive industries have worsened, particularly in Germany and Austria. If this is not counteracted at political level, then the process of de-industrialization in Europe will continue to accelerate, with all the negative impact that this brings to employment levels and value chains,” says Chairman of the voestalpine Management Board and Chairman of worldsteel Wolfgang Eder, pointing to the heart of the problem. “It's now almost impossible to plan for the long term. Energy-intensive industries such as voestalpine are increasingly forced to concentrate their strategic growth in markets outside Europe, because being competitive in the global marketplace is increasingly difficult when based in Europe,” according to Eder.

General Secretary of the Federation of Austrian Industries, Christoph Neumayer, confirms that the developments indicated in the study will have far-reaching consequences: “When energy-intensive industries move away it costs jobs and has a significant impact on all downstream industries as well as the functionality of networks and research alliances.”

Declining willingness to invest

One of the key findings made by the authors of the study is the declining willingness to invest at home: Energy-intensive companies invest less in Germany than they write down – their capital stock is shrinking, as well as the preconditions for future growth. Net investment amongst energy-intensive industries in Germany fell from EUR +232 million in 2000 to EUR -1.7 billion in 2013. The discrepancy between a strong drop in net assets and predominantly growing production suggests that Germany is becoming less relevant as a location for these branches of industry. This development is similar in Austria, although less pronounced. “We can conclude from the study that companies in the most energy-intensive industries are steadily relocating their production abroad, gradually eroding the industrial heart of both countries,” says Managing Director of the Handelsblatt Research Institute Dirk Heilmann. Investments at home in both countries are in any case significantly less dynamic in their development than investments abroad.

Highest labor and energy costs worldwide

In 2013, labor costs in Germany's manufacturing sector were EUR 36.20 an hour, and EUR 33.20 in Austria. This not only places both countries significantly above the EU average of EUR 24.40, but also over the labor costs of important global competitors such as China, Japan, and the USA. High labor costs are a problem for industry largely because for several years they have been rising faster than productivity. While the electricity prices paid by industry in Germany and Austria are below the EU average when excluding all duties and taxes, the overall prices are very different: Prices in Germany lie considerably above those in Austria, and also over the EU average. Compared with the electricity prices paid by industry in the USA, in 2014 prices in Germany were twice as high. The EU climate protection measures are also creating uncertainty for industry, and rendering long-term planning impossible.

A strong industrial backbone is a guarantee of low unemployment
With industry generating 21.8% and 18.3% of GDP in Germany and Austria respectively, the two countries are still considerably above the EU average of 15.1%. This indicates a positive correlation between a large industrial sector and low unemployment, particularly in view of their comparatively better performance in dealing with the global economic and financial crises. Unemployment in Germany was 4.7% in July 2015, and in Austria 5.8%. The EU average was 9.5% (source: Statista 2015).

Industry as an employer and driver of research
Industry is an important employer in both countries: In 2013, 7.3 million workers were employed in the manufacturing sector in Germany, representing 17.5% of the national workforce. In Austria in the same year the percentage was 15%, with 630,000 employees working in industry. In contrast to the EU average, the size of the working population in the industrial sector has remained almost constant for the last ten years. The private sector is an important funder of research and development, and industry in particular is a key supporting pillar of the knowledge-based society in both countries. Around 85% of private R&D expenditure in Germany (EUR 53 billion), and 63% of Austrian R&D expenditure (EUR 6 billion) comes from industry.

Growing skills shortage
In 1997, the proportion of school leavers in Germany who entered tertiary education rather than a dual system of workplace training and education was around 31%. By 2014 this had risen to 52%. This indicates that the importance of vocational training is declining. In addition to the general reduction in the size of the available labor force, which is the result of demographic factors, industry is also faced with a dramatic shortage of skilled labor at a non-academic level, a circumstance already strongly in evidence in several industries.

Study: *Zukunftsszenarien der energieintensiven Industrien in Deuschland und Österreich*
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Download the study at: http://bit.ly/1RfWuuO (in German)

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