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Horizons

The LNG lifeline

Will cheaper global gas resuscitate European industry?

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INTRODUCTION

Recent years have taken a brutal toll on Europe's industrial producers, as a combination of record energy prices, supply-chain disruptions and robust decarbonisation targets have eroded their global competitiveness. Faced with the spectre of ever-greater deindustrialisation, European governments have responded with policy measures, albeit with mixed success.

Rather than political intervention, however, it is the end of those high energy prices that may ultimately provide the greatest relief for Europe's industrial sectors. Liquefied natural gas (LNG) suppliers, particularly in the US and Qatar, have responded to high gas prices by investing massively in new supply. Consequently, traded gas prices in Europe are set to tumble in the coming years as a new wave of LNG supply hits the market. With energy costs a key factor in Europe's economic malaise, its industrial producers could be the greatest beneficiaries of lower gas and electricity prices.

European industrial natural gas and power demand have declined by 21% and 4%, respectively, since 2021, sparked by soaring prices after Russia's invasion of Ukraine. Though energy prices have come down from their 2022 peak, average European industrial electricity prices remain at a significant premium to those in China and the US, while natural gas prices are several times higher than in the US.

Desperate to reverse the European Union's (EU) industrial decline, the European Commission published 'The Future of European Competitiveness' in September 2024. Led by former European Central Bank chief Mario Draghi, the report gives energy centre stage. Recognising the detrimental impact of high energy prices on the bloc's industrial competitiveness, it details policy aims of reducing prices through deregulation, infrastructure investment and new energy price formulas.

However, other forces are at play besides the consequences of lower energy prices on Europe's industrial producers. The Draghi report's goals of boosting European industrial competitiveness are set against the backdrop of the EU's unswerving commitment to driving down emissions. This will require a delicate balancing act: if emissions reduction remains the EU's guiding principle, then reviving industrial growth becomes even more difficult.

In this month's Horizons, we examine the impact of lower wholesale energy prices and how they will translate into energy-bill reductions for Europe's industries, assess which industrial sectors will be most impacted, and consider what else Europe will need to do to achieve its objective of restoring global competitiveness. As energy prices fall, the implications for stakeholders across Europe and beyond will be profound.

The complex demise of European industry

European industry is in a funk. In September 2025, EU industrial production (IP) was 3.8% below its September 2022 peak. Germany, the continent's largest manufacturer and a beacon of industrial success just a decade ago, is at the heart of the slump. German IP has plummeted 18% since the middle of 2018.

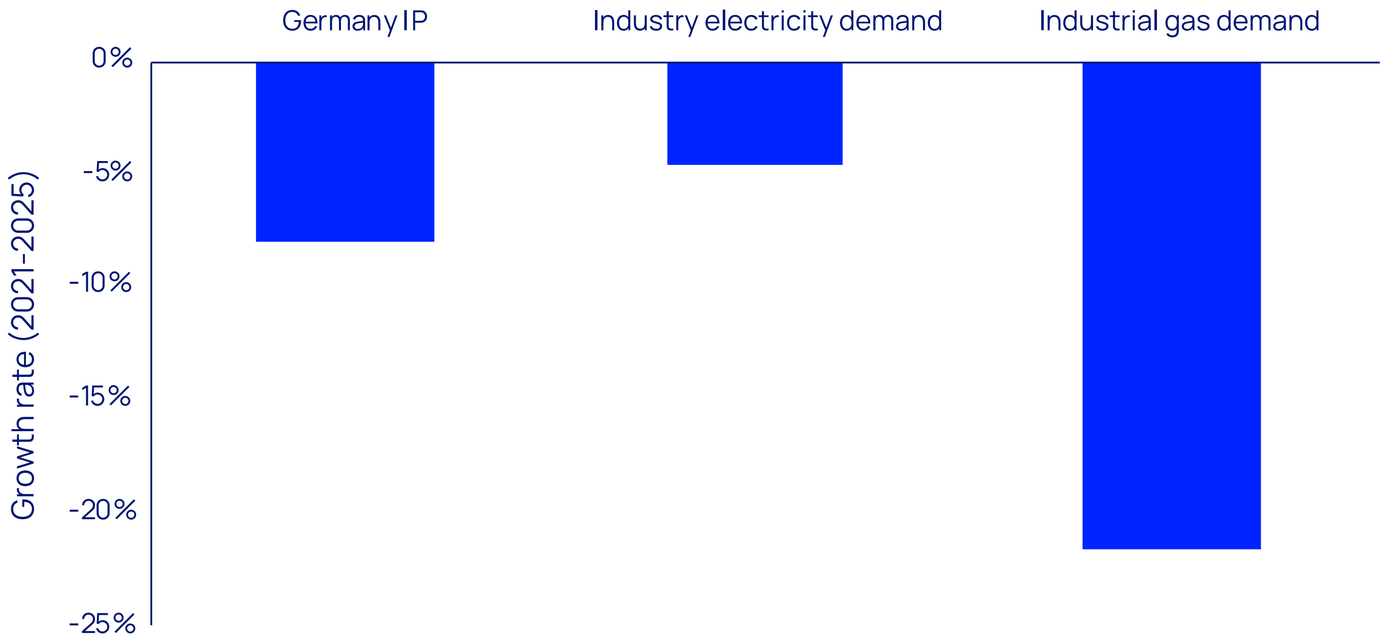
The recent decline only exacerbates a long-running trend: Europe's standing in global industry has been diminishing for years. Accounting for a fifth of value added in global industry in 2005, the EU had slid to a paltry 13.5% share in 2024. Moreover, while Europe has been stuck in the slow lane, China has surged from 10% to 31% of global industry over the same period. Emerging industrial hubs, such as Türkiye and Vietnam, have more than doubled their IP since 2010.

Europe's standing in global industry has been diminishing for years

The decline is not Europe-wide. Over the past three years, Denmark, Sweden and Greece have recorded double-digit IP growth. At the sectoral level, Europe's pharmaceutical, defence and aircraft manufacturers are among its top performers.

Figure 1: Lofty gas prices have left European IP and energy demand stuck in the slow lane

EU-27 gas and electricity consumption in the industrial sector and Germany IP



Source: Wood Mackenzie Lens Gas and Lens Power & Renewables; Eurostat.

Closing the competitiveness gap

European industrial competitiveness has been hit hard by the energy crises that followed Russia's invasion of Ukraine, which sent European gas and electricity prices soaring and widened an already significant price gap with its major competitors, including the US and China.

The average European still pays more than four times as much as the US for gas

Europe's gas prices have been structurally higher than those in the US since shale gas transformed the US energy market well over a decade ago. The increasing availability of low-cost shale gas to the power sector has also kept US electricity prices low. In China, industrial gas prices, which are mainly regulated, with some linkage to oil prices, have historically been similar to those in Europe. However, its electricity prices remain lower because of relatively cheap coal and, more recently, the massive build-out of subsidised renewable energy.

Consequently, the impact of the energy crisis on European gas and electricity prices was far more damaging than that on China and the US. At their peak in 2023, average European industrial gas prices were more than five times those in the US, while electricity prices were almost three times. Although prices have since fallen, the average European industry still pays more than four times as much than in the US for gas and more than twice as much for electricity.

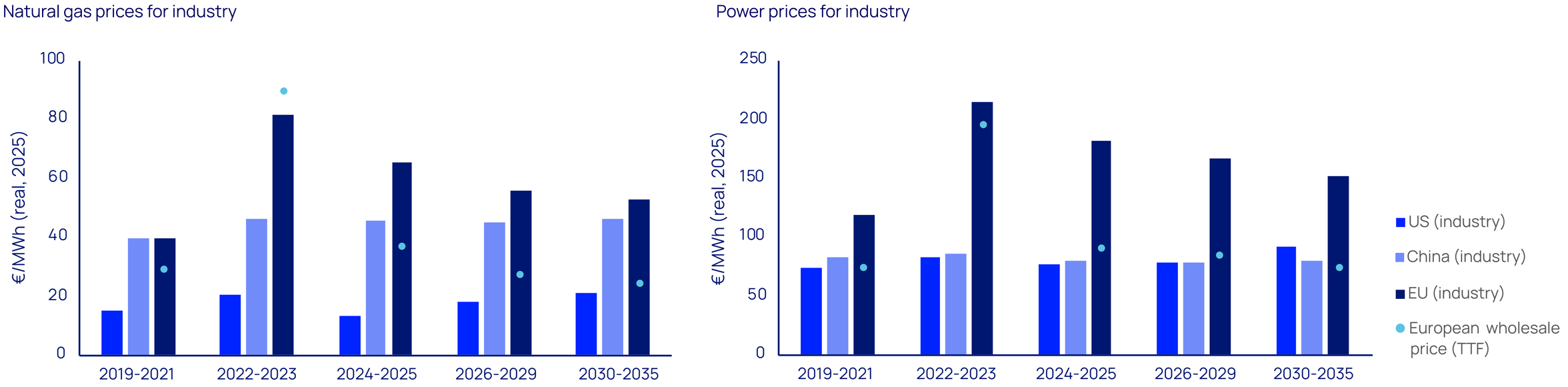
A reversal of fortune

Europe's extreme price disadvantage may soon be over, however. The massive build-out of US LNG is expected to boost global supply faster than demand growth, resulting in European traded gas prices almost halving by 2030, when prices will be at their lowest levels, compared with 2025. Benchmark European gas prices are forecast to fall to an average of €24/MWh (US$8/mmbtu) in the 2030-2035 period. Prices could fall further still should a meaningful return of Russian gas to Europe materialise.

At the same time, growth in LNG supply and data centres in the US will boost local gas demand by almost 40% in the next 10 years, lifting domestic Henry Hub prices to an average US$4.9/mmbtu (€15/MWh) in the 2030-2035 period - 50% higher than the average price in 2025.

In effect, the success of US LNG supply growth will come at a cost to US consumers and to the benefit of those in Europe. The reduction in wholesale energy prices won't fully translate into lower industrial energy prices, however, as infrastructure cost and subsidies for investments in renewables, will offset part of the benefits. Even so, European industrial users will see gas costs reduce sharply, putting them closer to those in China, where prices will remain relatively flat, and narrowing the competitive gap to the US. Similarly, reduction in wholesale power prices, albeit softer than gas price reduction because of increasing carbon prices, is set to halve Europe's competitive gap to China and the US in the 2030-2035 period from current levels.

Figure 2: In Europe, what goes up must come down



Note: Gas and power prices shown represent average gas and electricity prices for industry, rather than those for energy-intensive industries. Source: Wood Mackenzie, Eurostat (EU), CEIC (China) and EIA (US).

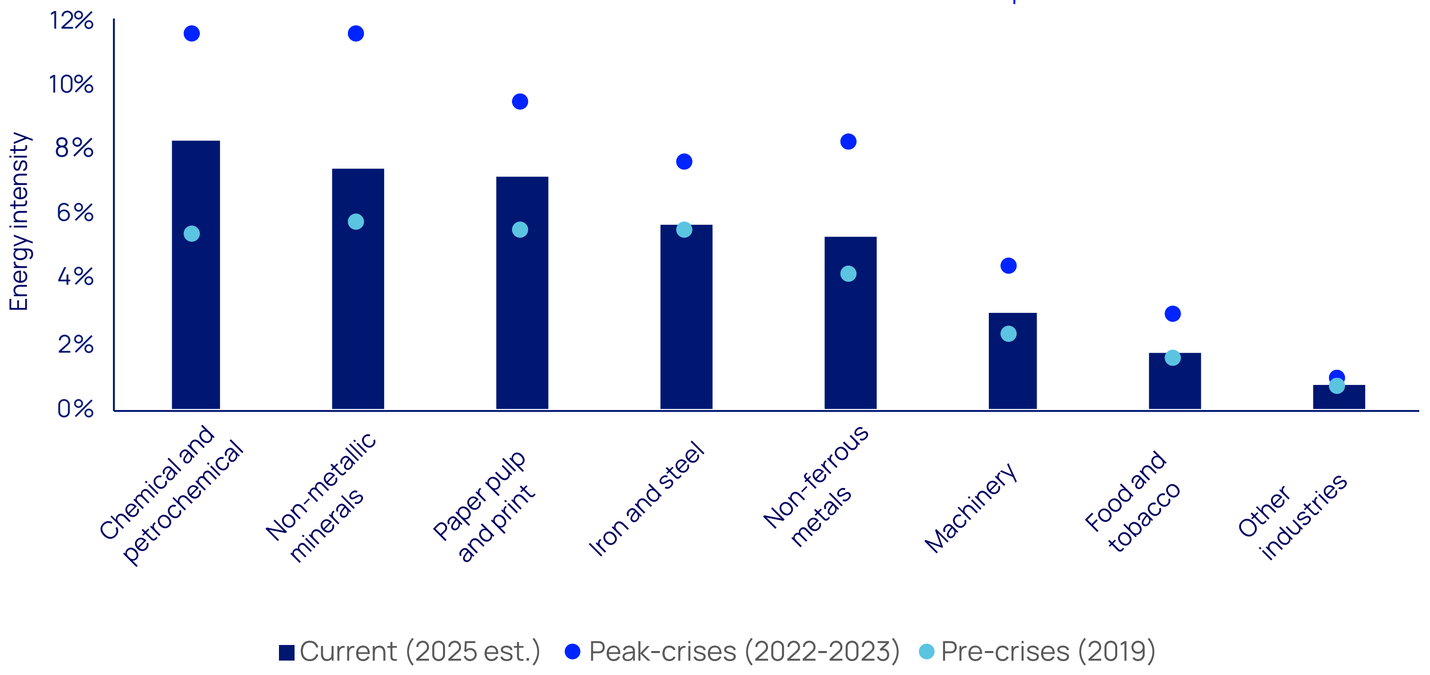
Peak pain for Europe's energy-intensive industries

The consequences of lower energy costs for industrial competitiveness are not uniform, however, with some sectors more exposed than others. To illustrate this, we have calculated the gas and electricity expenditure of different industrial sectors and assessed the result as a share of production costs.

The continent's petrochemical producers, for example, saw energy as a share of total costs increase dramatically from a pre-crisis level of 5% to as much as 12% in 2022. As a result, production volumes across Europe's chemical sector decreased by 21% that year, with firms including BASF and INEOS facing increasing competition from producers elsewhere. Companies responded by either closing or mothballing plants, or moving production to lower-energy-cost locations. Wood Mackenzie estimates that European chemical production today is running at only 80% of total capacity. ExxonMobil's recent announcement to shutter its ethylene plant in Scotland is a stark sign that relief remains elusive.

The non-ferrous metal sector has also been hit hard. While energy accounts for less than 10% of costs across the full value chain, it represents between 20% and 40% of costs in the smelting and refining of base metals such as aluminium, copper and zinc. Companies, including Glencore and Trafigura, have closed or temporarily shuttered plants as energy costs skyrocketed. Other companies and industrial sectors have also suffered, despite energy accounting for less than 8% of their overall costs, with companies including ArcelorMittal and Thyssenkrupp in steel, and Nestlé and Danone in food, also taking a hit.

Figure 3: Europe's most energy-intensive industries have been hit hard
Cost of energy (gas and electricity) vs total production costs by type of industry



Energy intensity refers to the full value chain of the industrial sectors. In some industrial processes, including smelting and refining of base metals, energy accounts for up to 40% of overall costs

Note: Energy-efficiency ranges have been calculated using the gas and power prices for energy-intensive industries, except for 'Other industries', where the average price for industry has been used instead. Energy costs have been considered as a share of intermediate consumption, as expressed by Eurostat (which does not include labour costs or capex).
Source: Wood Mackenzie Lens Gas and Lens Power & Renewables, Eurostat.

Europe's cross-subsidy Band-Aid

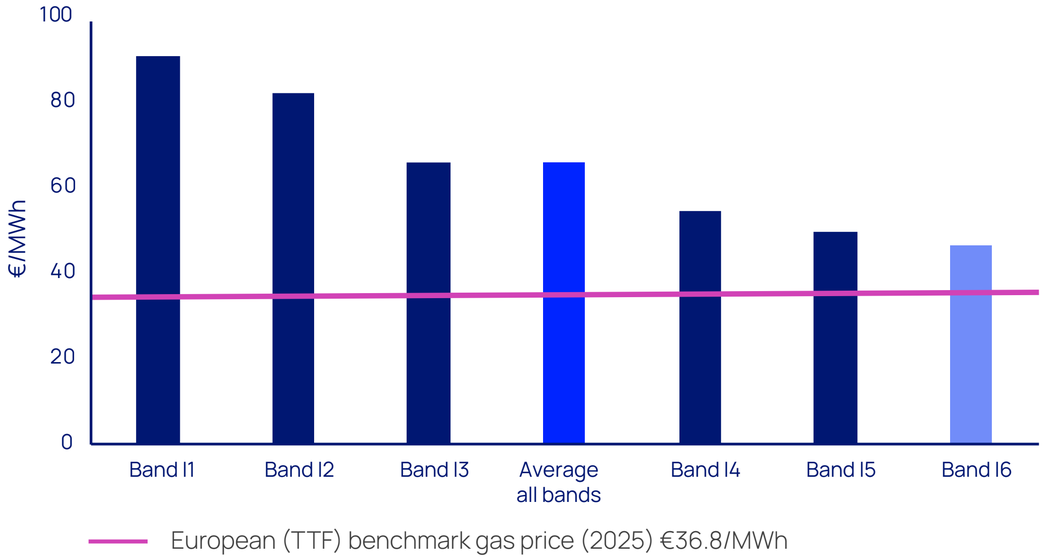
European industries pay very different energy prices depending on their consumption level. Energy-intensive sectors, such as chemicals, steel, metals, cement and glass, pay rates close to wholesale prices and benefit from lower network charges thanks to their massive demand. National policies further protect them by shifting much of the cost of low-carbon subsidies onto less energy-intensive businesses and retails consumers, which will hardly see energy cost reducing, despite reducing wholesale gas and electricity prices.

Consequently, energy-intensive industries in Europe today pay significantly less, around 37% below the average electricity price and 30% below the average gas price. In many European countries, energy-intensive industries are now effectively being subsidised by less energy-intensive ones and retail consumers, which are paying gas and electricity prices only slightly below peak levels.

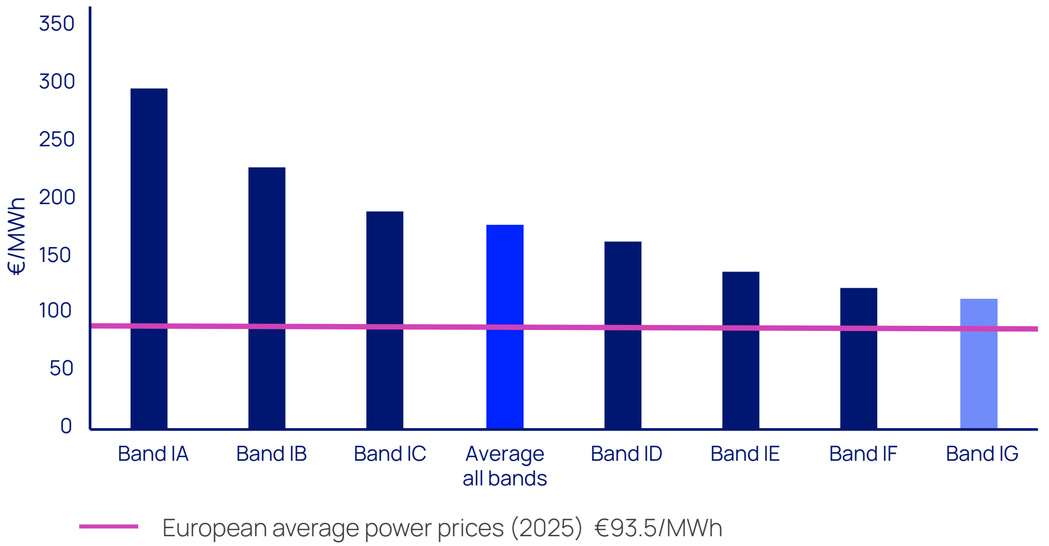
In many European countries, energy-intensive industries are now effectively being subsidised

Figure 4: The wholesale price is only one element of what industry pays for energy

Natural gas price for industry in the EU (2025)



Power price for industry in the EU (2025)



Note: Prices include non-recoverable taxes and levies. Different bands are representative of the amount of energy that each industry consumes. For gas, 'Band I1' refers to industries that consume less than 1,000 GJ, while 'Band I6' refers to consumption above 4,000,000 GJ. For power, 'Band IA' refers to industries that consume less than 20 MWh, while 'Band IG' refers to consumption above 150,000 MWh. Source: Eurostat, Wood Mackenzie.

Can lower energy costs come to Europe's rescue?

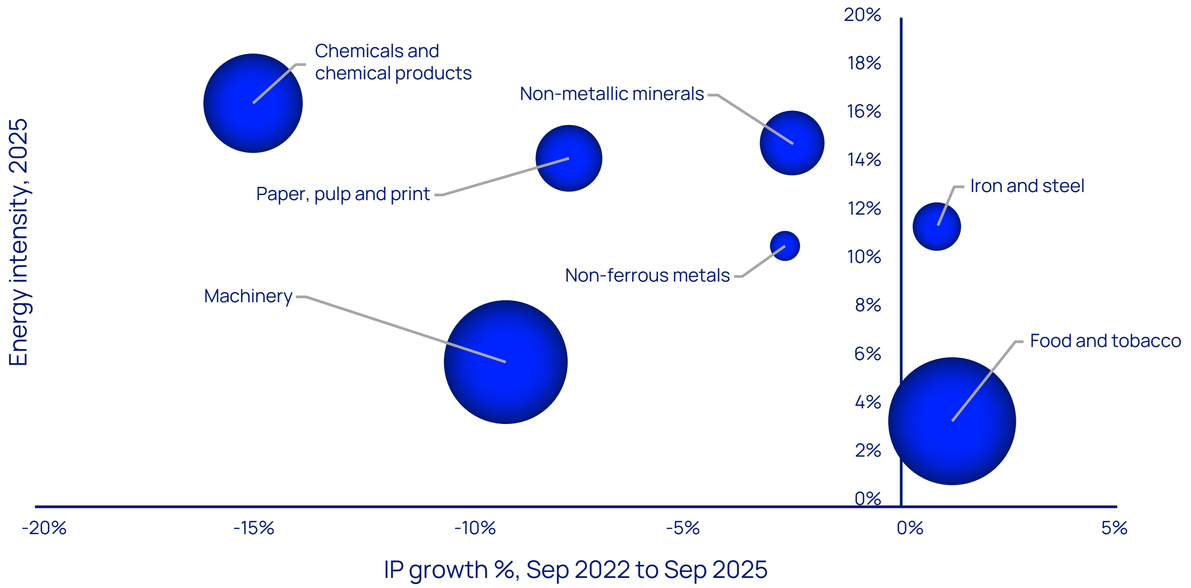
Based on our price forecasts, assuming production remains at 2025 levels, and considering all other costs and government taxes remain broadly similar, Wood Mackenzie estimates that energy costs across all European industrial sectors could fall by €39 billion by 2032. This is equivalent to 19% of today's total expenditure in gas and electricity and could generate savings of up to €180 billion over the next seven years.

Europe's sluggish economy could get a material lift. Assuming total industrial output remains broadly at today's levels, the energy cost savings will directly boost value added, equivalent to an estimated 1% of EU gross domestic product (GDP) in 2025.

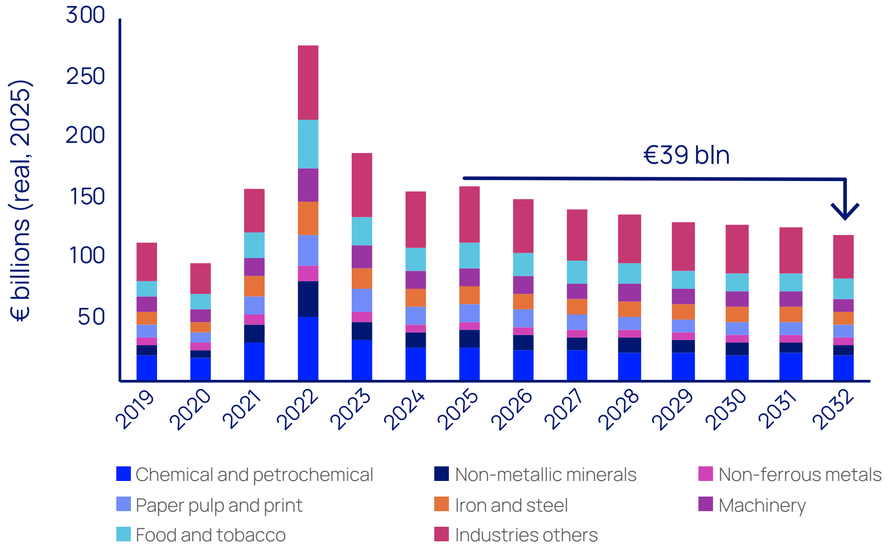
European iron and steel production – on the defensive for years, along with chemicals – could be thrown a lifeline, with cheaper energy enabling them to hold their ground in European markets. Pharmaceuticals and the food industry, meanwhile, would be in a position to regain ground, or even accelerate production and capture a greater share of international markets.

Figure 5: Lower energy costs could make all the difference to European industry

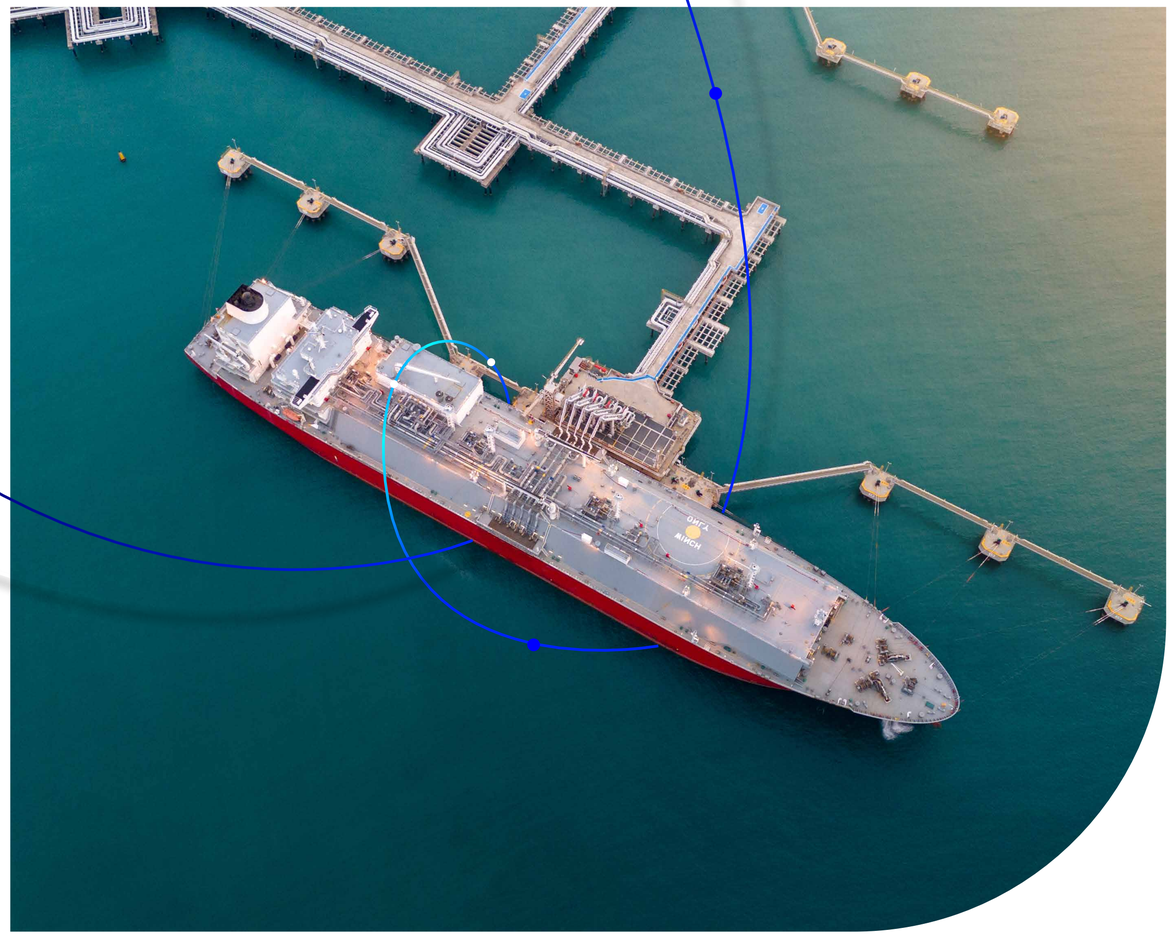
IP vs energy intensity



Energy cost for the European industrial sector



Note: bubble size represents sector gross value added. Source: Wood Mackenzie Lens Gas and Lens Power & Renewables, Eurostat.



A boost for Europe's data centre ambitions

What's more, falling energy prices could prove timely in terms of driving investment in data centres, a core strategic priority for Europe. The continent currently trails the US and China in the AI race, and scaling up hyperscale data centre capacity has become a central pillar of the EU's strategy to close that gap. Brussels has set an ambitious goal of tripling capacity by 2035, yet today's development pipeline delivers only a fraction of what is needed.

Lower energy prices would make Europe far more competitive for data-centre investment

Energy costs are a critical barrier, accounting for over 10% of total lifecycle costs and more than 50% of operating costs in many facilities. Lower energy prices would make Europe far more competitive for data-centre investment. However, regulatory hurdles, especially around permitting, sustainability and security, as well as grid access constraints, remain significant bottlenecks and will need to be addressed to fully leverage lower energy costs and unlock new developments.

Less obvious upside for the European defence sector

There could also be some upside to defence industry investment – another European strategic priority, on which it has committed to spend 5% of GDP by 2035 – though it is undoubtedly less obvious. Greater defence spending will boost sectors that manufacture and supply military equipment, such as transport, weaponry and communications systems, as well as defence-related sectors, including infrastructure and cybersecurity. None of this is overly energy-intensive, but the industry's reliance on upstream sectors, such as metals and steel, means that lower energy prices could ease input costs and potentially lead to the reshoring of supply chains.

Lower energy prices alone may not be enough

Despite the significance of falling energy prices, the reality is that the cost of gas and electricity is far from the only factor hindering Europe's industrial competitiveness. Heavy regulation, high labour costs, and weak productivity and innovation have all contributed to the erosion of the EU's industrial position globally.

The single most important obstacle to increasing European industrial competitiveness going forward, however, is its ambitious decarbonisation agenda. Brussels fundamentally wants to reduce reliance on fossil fuels and lower energy costs by spurring investment in low-carbon energy and manufacturing, as outlined in its Clean Industrial Deal launched in February 2025.

The single most important obstacle to increasing European industrial competitiveness going forward, however, is its ambitious decarbonisation agenda

The logic may hold in the long run, but for now, the strategy is piling on costs and complexity that many industries simply can't absorb. Energy-intensive sectors are feeling the impact most, as electrification isn't viable for many high-temperature processes, forcing them to rely on expensive low-carbon gases, such as hydrogen and biomethane, or similarly high-cost carbon capture solutions. Consequently, even as natural gas prices fall, these industries could still face higher energy bills. Europe's decarbonisation policy is inadvertently a deindustrialisation policy.

So far, the inclusion of industry in the EU Emissions Trading Scheme has had limited impact on competitiveness, as companies have received free carbon allowances. That shield is about to disappear, however. As companies start paying more for their permits, already above €80/tonne and rising, they will soon face the choice of expensive carbon bills or investing in expensive lower-carbon options.

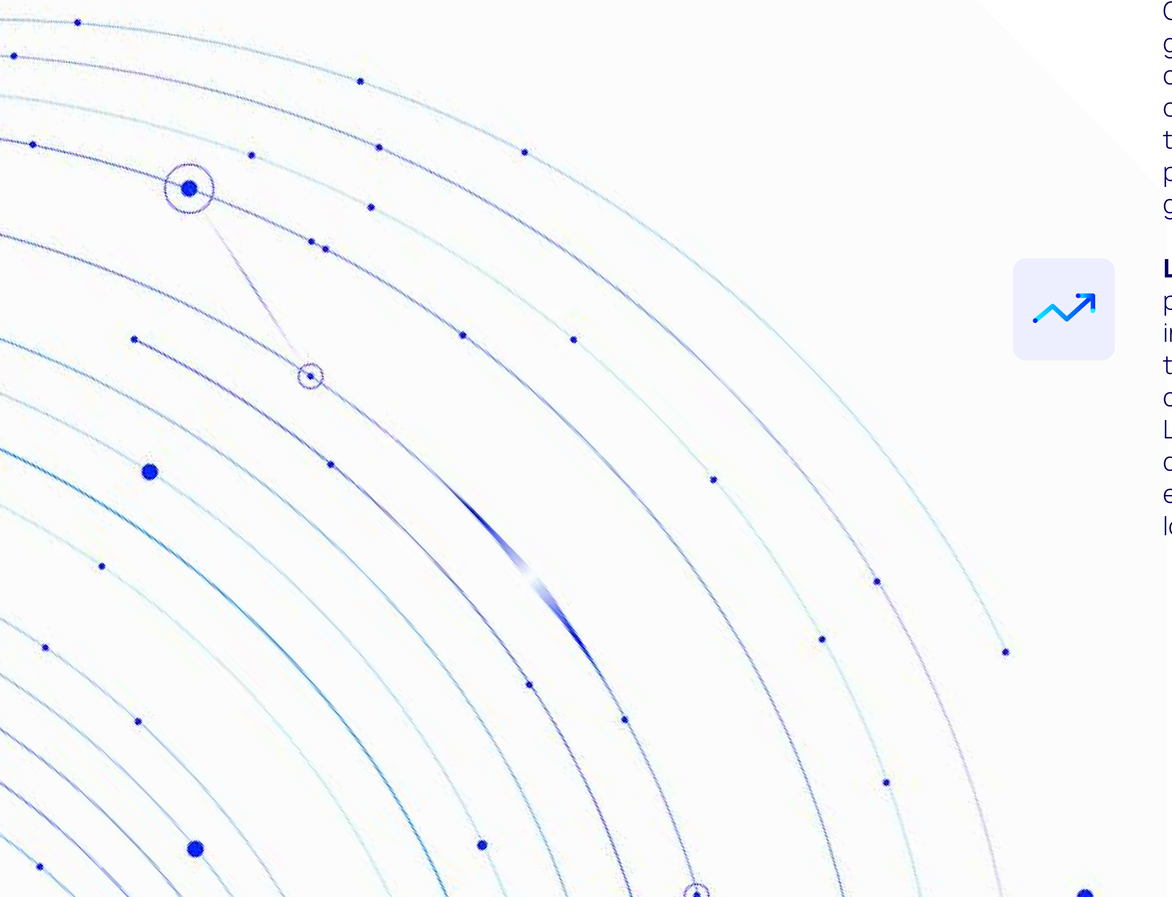
Brussels is aware of the competitiveness risk its decarbonisation goals present, which is why it is rolling out countermeasures. Chief among them is the Carbon Border Adjustment Mechanism (CBAM), which kicks in from 2026 and will impose matching carbon costs on imports from energy-intensive industries to maintain a level playing field. The CBAM is unlikely to fully protect domestic industries from higher costs, however, nor will it make them more competitive internationally – unless a global carbon price emerges, which is unlikely in the near term.

The CBAM is unlikely to fully protect industries from higher cost, however, nor will it make them more competitive internationally

Further policy initiatives also risk limiting the benefits of lower LNG prices. These include the EU Methane Regulation (MER) and the Corporate Sustainability Due Diligence Directive (CSDDD), both of which risk disrupting growth in Europe's LNG imports and potentially driving up delivered costs.

Far-reaching implications

Lower gas and power prices will also have ramifications beyond Europe's industrial producers.

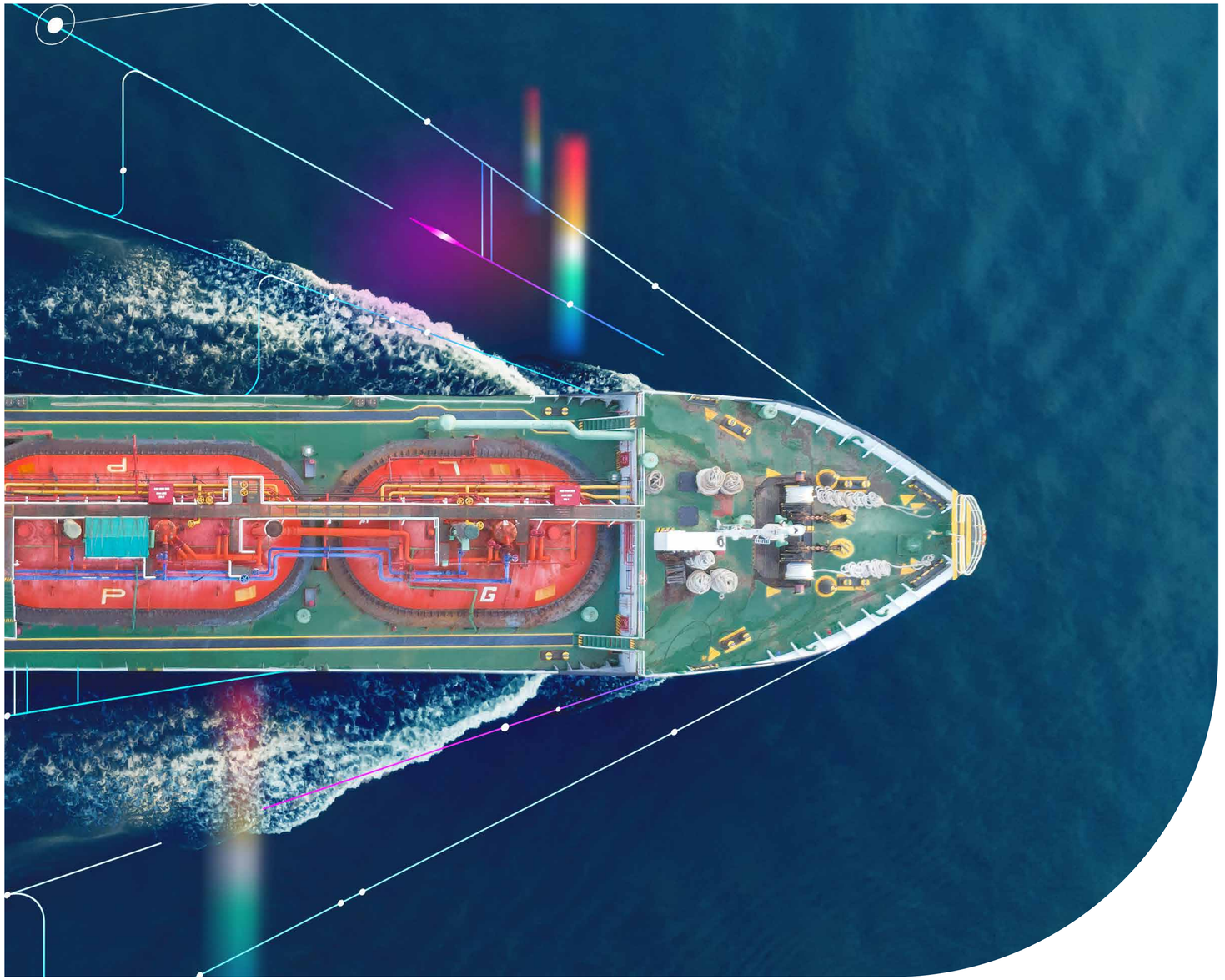


EU/European governments: lower energy prices are a gift for European governments desperate to shore up their industrial producers and reverse economic decline. But low prices won't last forever. Governments must strike a balance between grasping the opportunity to increase industrial competitiveness and managing the pace of decarbonisation efforts. Widening and tightening the scope of CBAM and greater pragmatism on the MET and CSDDD would go a long way.

LNG suppliers: lower LNG prices may dent the profits of LNG sellers, but the massive growth in supply over the coming years will reinforce the industry's messages around the competitiveness, reliability and flexibility of LNG. Lower prices will also slow the pace of demand decline in Europe and accelerate growth in Asia, encouraging consumers to commit to gas in the long term.

European utilities: falling gas prices do not present a binary outcome for Europe's power generators. With most utilities committed to the rapid rollout of renewable generation – including high-cost offshore wind – lower gas costs will reduce margins as wholesale power prices fall.

US industrial competitiveness: with low gas and power prices for over a decade, US industrial competitiveness has put Europe in the shade. Combined with this, the Trump administration's efforts to lure manufacturers to the US with a combination of lower energy costs, import tariffs and less red tape have rocked both European policy makers and industries. Falling European traded gas prices combined with rising domestic Henry Hub prices and electricity bills in the US could derail this goal.



CONCLUSIONS

A tricky balancing act

Lower energy prices offer European industry a desperately needed lifeline.

With competitive gas and electricity prices, Europe's most energy-intensive industries would have an opportunity to recover and rebuild through the middle of the next decade. Cheaper energy alone, however, will not be enough to revive the continent's industrial fortunes.

Pro-industry policies, greater deregulation and sympathetic taxation will be needed to support growth, particularly as lower inflation and interest rates are expected to stimulate greater investment activity and protect consumers' purchasing power. In parallel with supportive economic and fiscal policies, Europe must also balance reviving its energy-intensive manufacturing sectors with its rapid push to decarbonise. Delivering both will require pragmatism, innovation and patience.

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