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MANUFACTURING, CONSTRUCTION AND RETAIL

A reprieve, not a recovery, for EU chemical producers

The Iran war has hit EU chemicals less severely than feared, with production, capacity utilisation and margins improving in recent months. But renewed import competition will cloud the outlook once Gulf oil and gas supplies to Asia recover. To reverse the industry s long-term decline, producers and policymakers must accelerate the green transition



Polyethylene, the world's most common plastic, is used to make everyday products like packaging film, shopping bags, and bottles

Boost from softer Asian competition

The Iran war has hit European chemical producers less severely than feared. After the first tariff shock in early 2025, demand initially rose as customers brought forward purchases amid supply chain uncertainty. The main boost, however, came from weaker imports. Damage to Middle Eastern plants and Strait of Hormuz blockades sharply reduced production and exports. About a quarter of regional polyethylene capacity was damaged, with repairs likely to take months.

Elsewhere in Asia, producers faced prolonged feedstock and energy shortages. Asia depends far more on Gulf oil, gas and raw materials than the EU does. Before the conflict, Asian countries sourced 40-90% of their oil from the region, compared with around 20% for the EU.

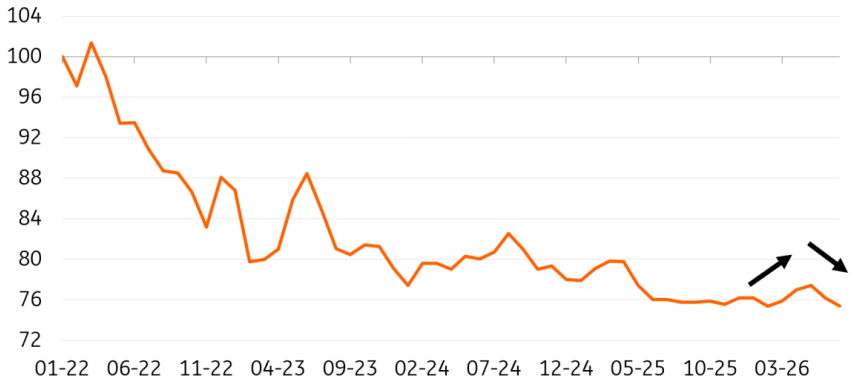
Earnings improve strongly, but production returns to previous level

Reduced competition and tighter supply conditions drove three consecutive months of growth in EU chemical production from February to April, while sharp price rises provided a significant boost to second-quarter earnings. But the respite proved short-lived as output contracted again as inventory restocking faded and transport links through the Gulf improved.

By June, EU chemical production was 0.5% lower than a year earlier and remained around 24% below early-2022 levels. Meanwhile, exceptionally low Rhine water levels continue to disrupt raw-material shipments and production schedules, particularly in Germany and the Netherlands.

Modest 12-month production peak was short-lived

Monthly production level of the EU chemical industry, January 2022 = 100*



Source: Eurostat

*seasonally adjusted production, 2-month moving average

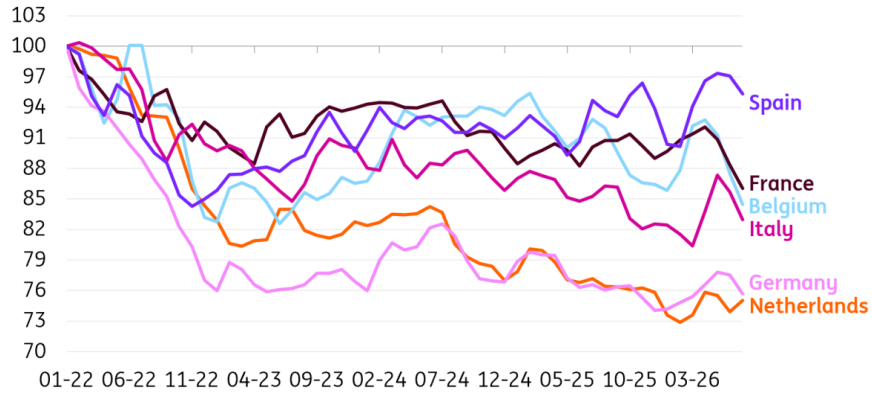
Spain is Europe's exception

Germany and the Netherlands have recorded the largest production declines among the EU's six biggest chemical producers. Together with Belgium, they host Europe's largest petrochemical and basic chemicals cluster: the Antwerp-Rotterdam-Rhine-Ruhr Area. Highly energy-intensive processes therefore weigh heavily on their chemical sectors.

Spain stands out: chemical output has risen relatively strongly this year and was the only top-six country to record growth in both 2024 and 2025. Its growth over the past decade, despite fluctuations, is also notable. Spain's competitive position benefits from relatively low energy costs, a smaller share of basic chemicals, a larger consumer chemicals segment, favourable domestic demand and its location. A pipeline supplies Algerian gas, while EU recovery funds have helped accelerate the expansion of renewable power capacity.

Spain's chemical industry has held up relatively well in recent years

Monthly production level of the chemical industry, January 2022 = 100*



Source: Eurostat

*seasonally adjusted, 2-month moving average

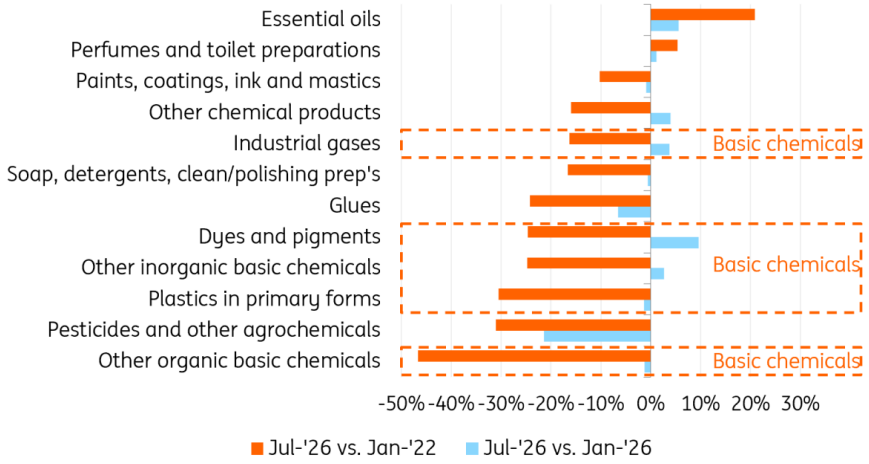
Temporary relief from competition and pressure on basic chemicals

While the EU chemical industry has broadly been under pressure for years, performance varies significantly across segments. Four of the five hardest-hit categories are in basic chemicals, which produce base products and intermediates. Since early 2022, output has fallen by between 25% in dyes and pigments and 47% in other organic basic chemicals. The latter is particularly energy-intensive and remains heavily reliant on fossil hydrocarbons for both energy and feedstock. Compared with the previous downturn, basic chemical producers benefited from weaker international competition in the first half of this year. Only agricultural chemicals fell sharply, as prolonged drought in the second quarter reduced demand for crop protection products.

Consumer chemicals, including oils, extracts, perfumes and toiletries, are the only segments to have grown both since early 2022 and since the start of this year. These downstream products are less exposed to volatile energy prices and generate more value through innovation. Speciality chemicals such as paints, coatings and cleaning products sit between the two: output remains structurally weak but has declined less than in basic chemicals.

Basic chemicals have been the hardest hit in recent years

Output volume mutation per EU chemical subsector*



Source: Eurostat

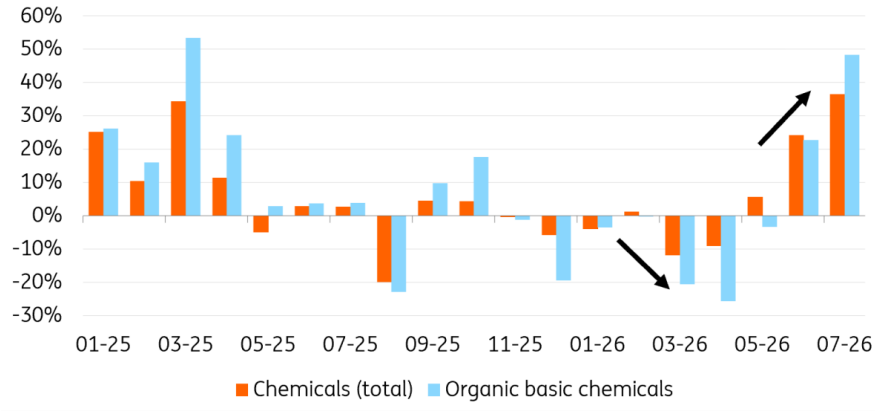
*seasonally adjusted

EU chemical activity follows the ebb and flow of the Iran war

The EU chemical production rebound was short-lived because of the June US-Iran ceasefire. Transport through the Strait of Hormuz resumed and energy prices temporarily fell sharply. Chinese oil refining and exports of oil-based chemicals to the EU recovered. In July, these exports were almost 40% higher than a year earlier, while exports of organic basic chemicals – which account for about two-thirds of China's chemical exports to the EU – rose by nearly 50%.

Rebound of organics setting the tone for chemical imports from China

EU imports of chemical products from China per month, % YoY



Source: Eurostat

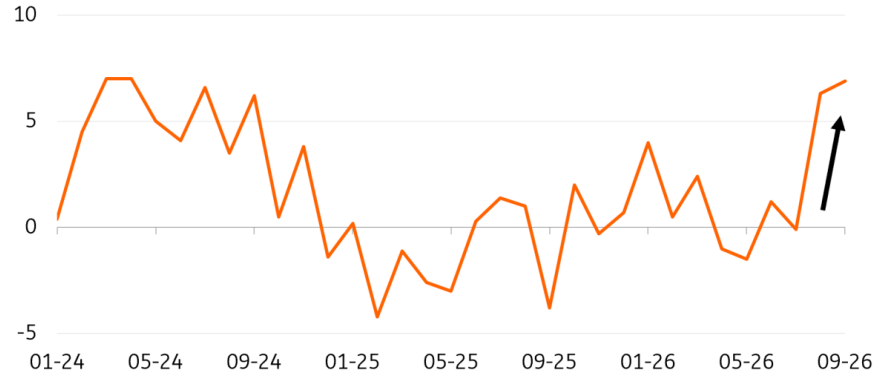
Production expectations rise as Middle East conflict flares up again

Since the conflict intensified again in July, Gulf oil, gas and feedstock shipments crucial to Asian chemical activity have fallen sharply. Although the switch from oil to coal offers a partial alternative, this is expected to increase pressure on Asian chemical production and exports again, which will provide some relief to European producers.

In August and September, most EU producers therefore expected to raise output, with expectations reaching a two-year high in September. European chemicals will benefit from weaker competition while transport remains disrupted. However, alternative Gulf routes will probably gain importance if the conflict persists, eventually reviving Asian import competition. Oil shipments through Hormuz have recently increased to almost 80% of pre-war levels.

Production expectations improve again

Production expectations for the months ahead, EU chemical industry



Source: European Commission

Speciality and consumer chemicals have the strongest outlook

Order books improved slightly again after a brief dip in September. Yet producers' assessment of orders remains much further below its long-term average (-26% versus -14%) than production expectations, highlighting persistent structural weakness.

The historically wide gap between upstream and downstream activities has narrowed this year, as have sentiment differences between countries. Sentiment improved in basic-chemicals-heavy Germany, Belgium and the Netherlands, but weakened in France, Italy and Spain, where basic chemicals play a smaller role. This reflects basic chemicals' temporarily improved competitive position but also continued weak demand.

European growth remains constrained by higher inflation and only a limited recovery in end markets. Higher energy prices squeeze consumer purchasing power, hitting consumer chemicals hardest. Speciality chemicals have better prospects as investment rises and the AI boom lifts demand for products and materials used in:

- Sustainability and electrification, including battery materials, chemical catalysts, flame retardants, lightweight resins and composites.
- Defence equipment, including reinforced plastic fibres, advanced coatings and lubricants.
- Semiconductors, including photosensitive polymers and ultra-pure speciality chemicals and gases.

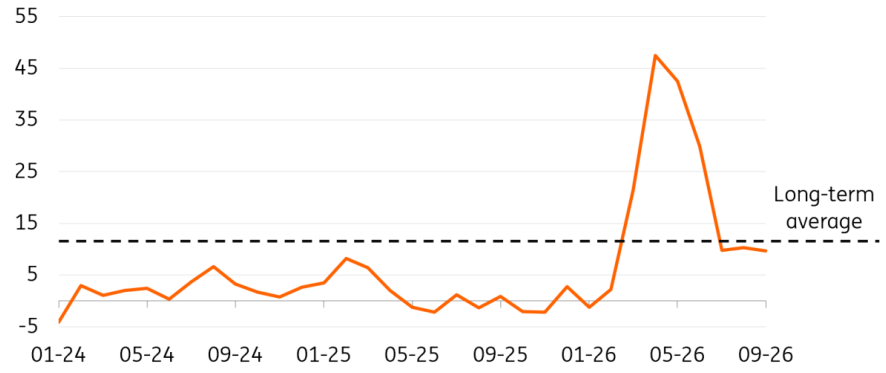
Higher energy and feedstock costs will bite more gradually

Chemical prices closely track energy costs, so expensive and volatile energy will also make them higher and more volatile. Yet the steepest rise in selling prices appears to be over. Although most producers expected to raise prices in August and September, the expectations index was stable just below its long-term average – a far milder increase than after the Iran war began. This suggests supply is gradually expanding again and price competition is increasing.

Greater difficulty passing on input-cost increases will put margins under growing pressure in the second half of the year, reinforced as higher energy costs feed through into purchase prices. Layered hedging – through long-term contracts, futures and other instruments – spreads this impact over time and helped margins improve sharply in the first half. Large chemical companies in particular use rolling hedging strategies, fixing or mitigating prices for different periods: from several months to several years, depending on the product, company circumstances and market outlook.

Selling price expectations stayed benign in September

Selling price expectations for the months ahead, EU chemical industry



Source: European Commission

Structural problems will resurface

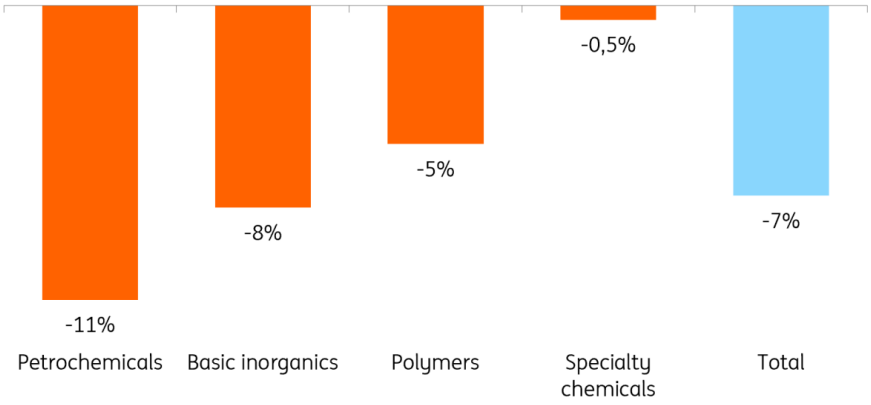
The European chemical industry's structural problems are far from over. Demand has been weak for years, while competitiveness continues to erode. European energy prices are substantially higher than in the US and China, and government support is much lower than in China. Once transport flows normalise, global overcapacity will again drive an influx of cheap imports, especially from China. Global chemical capacity grew by about 15% between 2018 and 2023 and, based on projects already underway, is expected to rise by another 10% through 2028, keeping structural overcapacity in place. Over the past decade, the EU's share of global chemical sales halved to 13%, while China's nearly quintupled to 46%. The EU's chemicals trade deficit with China widened from €21bn in 2023 to €24bn in 2025. An artificially weak Chinese yuan and US import tariffs further undermine Europe's competitiveness.

Restructuring wave is not over

Despite somewhat better market conditions this year, restructuring is likely to continue. Most major players have announced strategic interventions in recent years. Earlier this year, SABIC sold its European petrochemical operations, while Evonik is implementing a multi-year plan of divestments, closures and reorganisations. Ineos plans to close three UK chemical plants, and Shell wants to sell its entire chemicals division, including a major European cluster. European chemical capacity shrank by 30 million tonnes, or 7%, between 2022 and 2026. Announced plant closures increased sixfold over this period, while investment fell sharply. Petrochemical capacity was hit hardest, down 11%, whereas specialty chemicals held up best, declining just 0.5%.

European production capacity structurally declining

% decline in European chemical production capacity, 2022-2025*



Source: Cefic, Roland Berger

*Based on net capacity balance of announced closures and confirmed investments

Climate costs pose a growing challenge

Climate costs also put Europe at a competitive disadvantage to countries without carbon pricing or with much lower pricing. As free allowances are phased out, EU ETS costs will probably weigh increasingly on production costs towards 2030, both directly through companies' own emissions and indirectly through higher electricity prices. In July 2026, the European Commission proposed extending the emissions-reduction pathway, modestly easing the cost increase, alongside more financial support for clean-technology investment.

CBAM offers only partial protection for EU chemicals

Fertilisers and hydrogen are covered by the CBAM levy, which protects against imports not subject to carbon costs. In return, free allowances for CBAM products will be phased out faster, reaching zero by 2034. This will widen the cost gap between efficient, electrified installations and older fossil-based plants. Besides the faster phase-out, CBAM has several drawbacks for chemical companies:

- The levy can be circumvented when a chemical feedstock is covered by CBAM but a product containing it is not. This may encourage imports of finished or intermediate products from outside the EU. The European Commission's proposed expansion mainly targets downstream steel and aluminium products, not the wider chemical value chain.
- Most chemicals remain outside CBAM. Chemical value chains involve many processes, intermediates and feedstocks, making embedded emissions difficult to calculate. Organic chemicals have therefore been excluded for now.
- CBAM does not offset the EU ETS-related competitive disadvantage faced by EU companies in export markets.

Promising decarbonisation projects remain operationally challenging

To regain competitiveness, European plants must decarbonise faster through carbon capture and storage, process electrification, and recycled and bio-based feedstocks. Although projects are regularly cancelled, promising initiatives remain. INEOS plans to start Project One in Antwerp this year, introducing a modern ethylene cracker that initially emits less than half as much CO₂ as the EU's most efficient cracker and becomes climate-neutral within ten years.

Spain's Repsol aims to decarbonise its Tarragona complex through circular chemicals and methanol, large-scale green hydrogen and offshore CO₂ storage. In September, fertiliser producer Yara began shipping liquid CO₂ from Sluiskil in the Netherlands to Norway for the permanent underground storage of 800,000 tonnes of CO₂ a year by Northern Lights, a partnership between Equinor, Shell and TotalEnergies.

Such projects can quickly cost hundreds of millions of euros a year. The €5bn Project One has contributed to the doubling of INEOS's debt since 2021, while the group suffered a loss of more than €500m in 2025. Chemicals are therefore widely seen as a hard-to-abate sector. Governments often co-invest, but poor operating conditions, inadequate green infrastructure and weak demand for sustainable products still obstruct large-scale decarbonisation.

Infrastructure and decarbonisation investment are essential

Through its European Chemicals Industry Action Plan, the European Commission aims to prevent essential chemical production from leaving the EU. The European Critical Chemicals Alliance brings policymakers and producers together to identify, monitor, protect and support critical European production. Industry supports the EU ETS goals and system, but argues that sufficient free allowances should remain until effective protection against carbon leakage and adequate demand for sustainable products are in place.

This requires supportive EU policy. Europe's chemical transformation is becoming a race against time: more plants will inevitably close, leaving only the most efficient and fastest-decarbonising companies and clusters. Brussels' growing focus on incentives and safeguards against unwanted international dependencies therefore offers the sector welcome support.

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