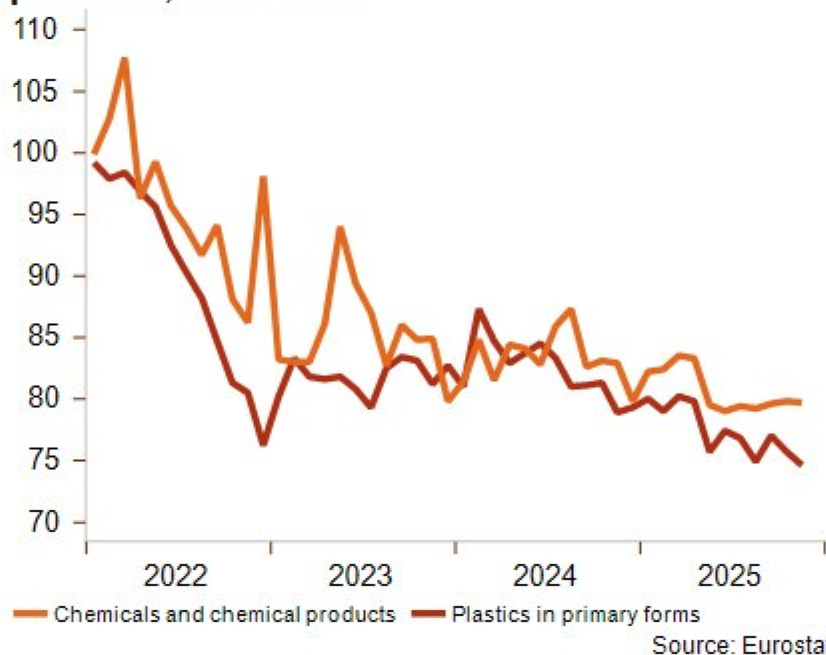
Chemical sector: The sector remains under strong pressure in the EU | Credendo

Production capacity is declining rapidly in the European Union

The current distress of the European chemical sector is the result of a combination of factors, which have progressively deteriorated the sector's competitive position over the last four years. Most importantly, the invasion of Ukraine by Russia, which has resulted in the end of cheap Russian gas supply, has led to higher energy prices in Europe compared to the USA and China. Weakening global demand and rising Chinese export competition have also played a role. The latter factor is especially significant for commodity goods and petrochemicals, where China's large-scale production and lower costs give it a strong advantage. Consequently, the capacity utilisation rate in chemical plants in Europe is low and production levels are consistently declining (see graph below).



Recently published figures about closures and investments confirm the matter of worry. According to a study made by Roland Berger for the European Chemical Industry Council (Cefic), closures in the European chemical industry between 2022 and 2025 represented 37 million tonnes of capacity, or about 9% of the European capacity production, with closure announcements doubling last year. On the other hand, confirmed investments have sharply declined over the period, totalling a small 7 million tonnes, including an 86% decrease over the last year. This leads to a significant net capacity reduction of 30 million tonnes in Europe in the last four years.

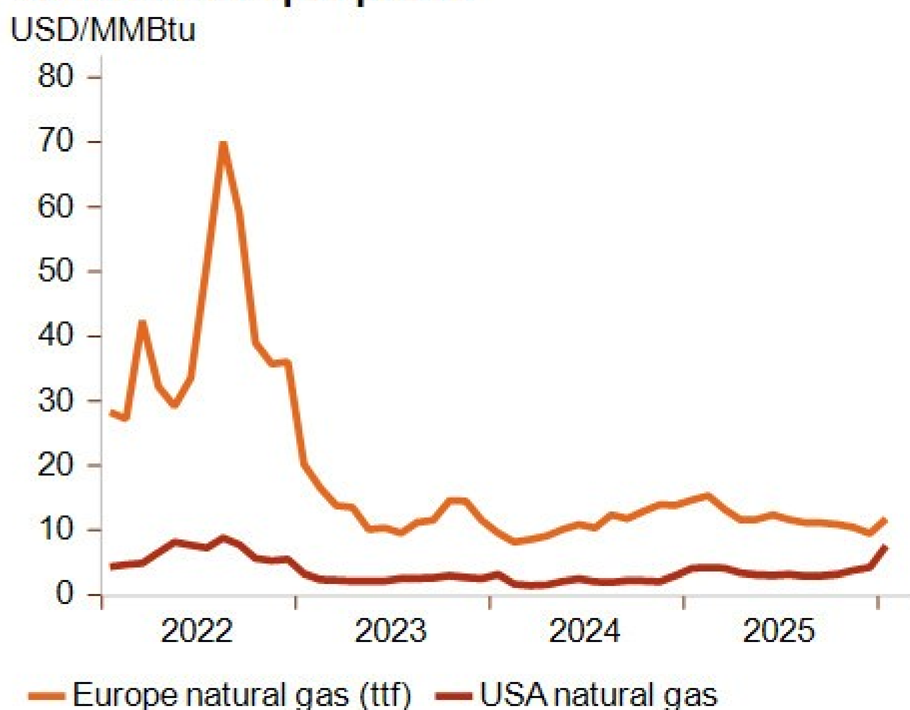
These net capacity reduction announcements take place in key producing countries: Germany (-8 million tonnes), the Netherlands (-7 million tonnes), the UK (-4.2 million tonnes), France (-3.5 million tonnes) and Central and Eastern Europe (-3.4 million tonnes). Belgium is an exception, with an almost neutral balance.

In terms of subsectors, the petrochemical segment represents 48% of the capacity announced for closures (explained by the announced closing of nine steam cracker units), amounting to a reduction of 14% of production capacity. Since those steam crackers are all located in integrated chemical clusters, their closure is putting those clusters under pressure. Basic inorganics were also among the most affected segments in terms of capacity cuts. Speciality chemicals, on the other hand, should suffer almost no net capacity reduction, thanks to investments in the battery supply chain.

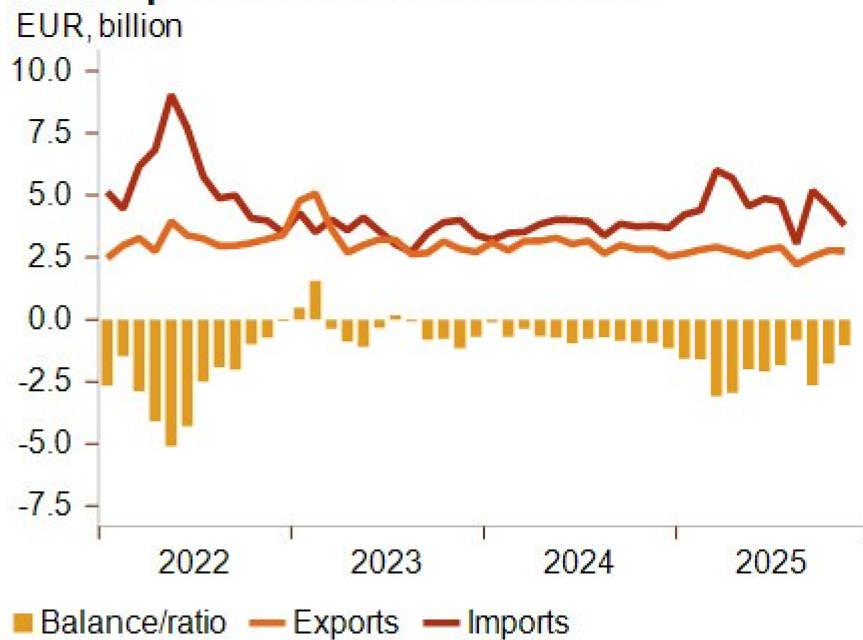
Recovery prospects remain uncertain

The demand drag is expected to continue due to weak economic conditions in Europe, where client sectors like the automotive sector remain shaky, or global trade impediments, including US tariffs.

With energy prices making up a considerable share of production costs (as high as 75% for petrochemicals and 85% for fertilisers) and remaining stubbornly higher in Europe than in the USA, no relief is to be expected from that side in the short term.



What is more, cheap Chinese overcapacities are being exported to Europe (see below graph). While Chinese authorities try to promote an anti-involution policy (i.e. reining in chemical production and curbing new plant production) to tackle overcapacities, few producers are willing to voluntarily cut production and leave market shares to competitors. With domestic Chinese demand remaining weak, exports to third countries, and to Europe in particular, are likely to remain strong. These factors will continue to weigh heavily on the chemical sector in Europe, especially in the petrochemicals, basic chemicals and polymers segments.



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