PRESS RELEASE

Still challenging outlook for European chemical companies

The energy crisis, low demand and more restrictive laws are putting a lot of pressure on the industry

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The index of industrial production of chemical products in the Eurozone fell by 9% year-on-year in June 2023, reaching a record low level since April 2020. The indicator began to decline in early 2022, but since the end of last year it has been in free fall. European companies in the chemical sector also face a number of challenges, including strong competition, especially from the US and the Gulf countries. The latter benefit from easy and cheap access to raw materials (especially energy), favorable industrial policies carried out by governments, and emerging "immature" markets.

Chemical companies are being pressured by weaker demand for goods and services, as this industry is largely dependent on the performance of other sectors such as construction, automotive, retail or ICT (especially electronics). Another issue is the reduction in inventory of businesses that use chemical companies as suppliers. **According to Coface experts, this trend will worsen the outlook for the sector in the second half of 2023 and the first quarter of 2024.**

Also having an impact is the reduction in producer prices after the dramatic growth that began in 2021. Chemical producers then benefited from high producer prices, but since the beginning of this year they have been on the decline. Since then, demand has been declining. A key point for evaluating the competitiveness between European and American producers in the future will be the difference in the prices of raw materials - natural gas and oil. In fact, European manufacturers rely on oil to produce chemicals, while their American competitors rely primarily on natural gas.

Lower activity, in turn, means lower operating rates at a time when firms in the sector are expanding capacity, particularly in Asia, the GCC and the US. Global ethylene production expansion is likely to reach 485.9 million metric tons by 2030 globally (up 25% from 2023), while demand will be close to 426.8 million metric tons by 2030 (+29%). Half of this growth in production will go to China, which could threaten European competitors due to increased exports.

Risks

The position of European chemical producers will suffer compared to that of their Asian and American counterparts. The reason is that the latter are supported by government policies to promote an overall business environment for chemical production, to attract investment from global companies (for example, the US Deflation Act) or to maintain a diversification policy (mainly in the Kingdom of Saudi Arabia , United Arab Emirates and Qatar). The aim of these measures is to reduce the ultimate dependence on oil and gas.

In addition, the energy crisis in Europe is making it difficult to produce chemicals. In the medium term (three to five years), electricity and oil and gas derivatives prices are expected to continue to suffer from high volatility as Europe relies heavily on LNG to power its gas-fired power plants.

For ethane and naphtha producers, lower demand from chemical producers will put pressure on operating prices for European refineries and their ability to compete with those in the Persian Gulf and the US. This is because the latter have access to cheap raw materials, their refineries are newer, larger and therefore more profitable. This trend could increase the dependence of European chemical producers on foreign suppliers and make the European supply chain more vulnerable to external shocks.

Last but not least, European chemical companies have to deal with more restrictive environmental laws. They aim to decarbonize production processes and reduce the effects of certain chemicals on human health, while contributing to increased compliance costs. For example, the Chemical Sustainability Strategy (CSS) plans to ban most harmful chemicals in consumer products. This could threaten the position of European manufacturers in world markets vis-à-vis foreign companies that do not face such norms.

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