AN FTI CONSULTING REPORT

A Tough Spot: How Can the European Chemical Sector Navigate Unprecedented Challenges?

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The European chemical sector continues to face challenges on several fronts – a perfect storm of continued subdued demand, geopolitical uncertainty, increasing regulatory changes and strong competition from other regions such as the United States, China and the Middle East. This time, the answer should not be just weathering the storm or waiting for change but rather making bold strategic decisions and taking steps to focus companies on those areas where a competitive advantage can be seized.

With rationalisation of assets and footprint, refocusing portfolios on the core strengths, reshaping business and operating models through an investor lens, and pro-actively navigating the green transition and the regulatory landscape in a smart way, various options are available that can be tailored to suit each organisation's needs, structures and longer-term goals.

Six Key Challenges

Demand-side outlook remains subdued

Continuing and increasing geopolitical uncertainty

China's capacity build-out

Transition towards lower carbon and a circular future

Regulation and bureaucracy

Increasing financing costs

The Bigger Picture: Outlook for the European Chemical Sector Remains Subdued

The European chemicals industry continues to face a challenging macroeconomic environment, marked by weak demand, high cost and low-capacity utilisation. Key performance indicators show that the industry has not yet recovered from recent disruptions both on the demand and on the cost side as well as in terms of newly emerging global trade balances.

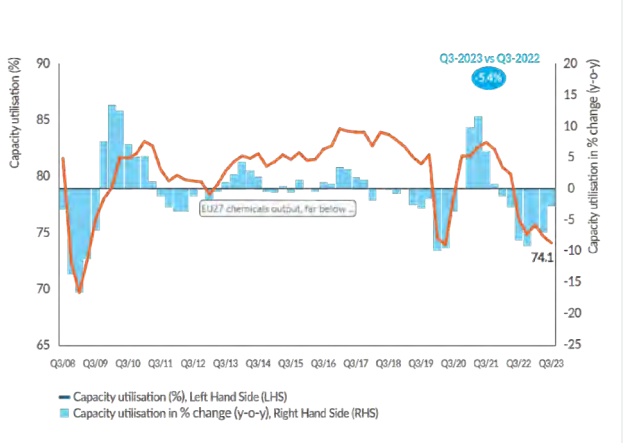
By Q3 2023, the capacity utilisation rate in the EU27 chemical industry had fallen to 74.1%, well below historical averages, that in normal times hover between 80% and 85%. This underutilisation is largely due to subdued demand across major end market sectors like automotive, construction, agriculture and consumer goods. Broader economic uncertainties, such as high inflation and elevated energy costs have further strained industrial output, which is reflected in low order backlogs in the chemicals industry.

In Germany, traditionally a trailblazer for the European chemicals segment, the sentiment in the industry remains depressed. Overall, the economy has not grown since 2019, and the level of chemicals output in 2024 is still almost 15% lower than in pre-pandemic times.

From September 2023, the EU27 chemical industry saw a 10.6% drop in production in comparison to the year prior – one of the steepest drops seen in history. This decline highlights broader challenges, including the impact of the Russia-Ukraine and Middle East conflicts, which have disrupted global supply chains and significantly driven up energy costs – currently still two to three times higher than in other regions. The impact of this still continues with little signs of change or improvement.

Looking ahead, growth prospects for the European chemical industry remain limited. Recovery is likely to be slow and uneven, lagging behind industrial production as a whole and hindered by ongoing structural challenges that affect competitiveness. While Oxford Economics projects a moderate 1.3% GDP growth rate for the Eurozone, the German IFO institute recently lowered the 2025 GDP outlook for Germany by 0.6% and confirmed that both industrial and consumer sectors are struggling to break free from their stagnation.

Graph 1: EU27 Capacity Utilisation



Source: cefic, 'The European Chemical Industry, Facts and Figures 2023', December 2023. https://cefic.org/library-item/powerpoint-2023-cefic-facts-and-figures

Graph 2: Development of Chemical Production

Source: VCI, 'Chemiegeschäft: Wann kommt der Aufschwung?', October 2024 https://www.vci.de/vci/downloads-vci/anfahrtsbeschreibung/241010-vci-wirtschaftsbriefing.pdf

Geopolitical Disruptions: A Key Factor to Navigate

The European chemical industry is under increasing tension as a result of geopolitical uncertainty. With long-term investment horizons, physical assets on the ground, digital assets in the cloud and activities in value chains that oftentimes span the entire globe, geopolitical volatility has a substantial impact on the future value of assets. With tariffs, sanctions, regulations and armed conflicts, geopolitical factors impact trade flows, supply reliability and the overall competitiveness of chemical companies. Though no doubt intertwined, the situation is worsened by the steep rise in energy and feedstock costs, which in many base chemicals value chains account for more than 50% of the total cost base.

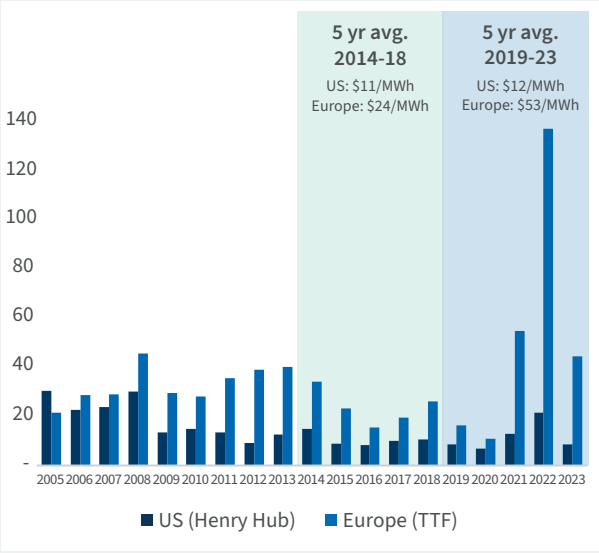
Over the past decade, Europe and the United States have executed energy strategies that could not be more different from one another. While the United States has become self-sufficient and a net energy exporter, Europe has continued to rely on Russia for natural gas. As a result of these differing approaches, European natural gas prices have surged since 2021, reaching a level of around $40/MWh until 2023 – far above U.S. prices of around $10/MWh. Contributing to this spread is the additional cost of liquifying, shipping and regassifying LNG, which is likely to remain in place until Europe decides about a different energy policy.

We have seen a similar trend in the feedstock market, where ethylene cash cost spreads between Europe and the United States/Middle East went from a historic $200-$300 per tonne to more than $500 per tonne following on from the COVID-19 pandemic in 2020 and the Russia-Ukraine conflict in 2022. European chemical players that have not fully covered their feedstock demand with existing contracts can try to benefit from spot market deals based on cheaper U.S. based ethylene, but this is only feasible or realistic from a supply security point of view for a relatively small portion of total demand.

This disparity between the United States/Middle East and European markets has eroded the cost competitiveness of European producers, leading many energy-intensive operations to curtail production or shut down due to the unmanageable costs. Ineos Group founder Jim Ratcliffe has gone as far as calling European chemicals production uneconomic with energy prices up to five times higher than in the United States and carbon costs to be added on top. He noted that Ineos profits 20 years ago came from Europe, whereas today the profits have almost entirely shifted to the US.

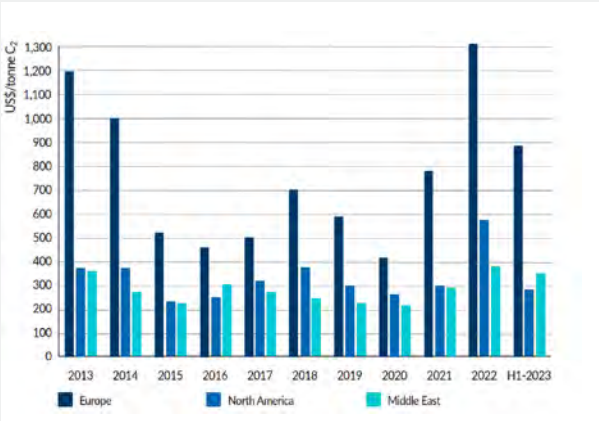
The situation has only been aggravated by the disruptions in the Red Sea since late 2023, leading to delayed supplies from Asia due to the re-routing of vessels. This has provided some relief for European intermediates players, given less availability of lower cost imports. On the other hand, according to the German industry association VCI, this especially impacts “medium-sized fine and specialty chemicals companies”, that heavily rely on the Asia based active ingredients and intermediates for their production.

Graph 3: Natural Gas Prices ($/MWh)



Source: FTI Consulting analysis from World Bank database

Graph 4: Ethylene Cash Cost of Regional Steam Crackers



Source: cefic, ‘The European Chemical Industry, Facts and Figures 2023’, December 2023. https://cefic.org/library-item/powerpoint-2023-cefic-facts-and-figures

Tough Competition: China's Expanding Capacity and Investment in the Chemical Industry

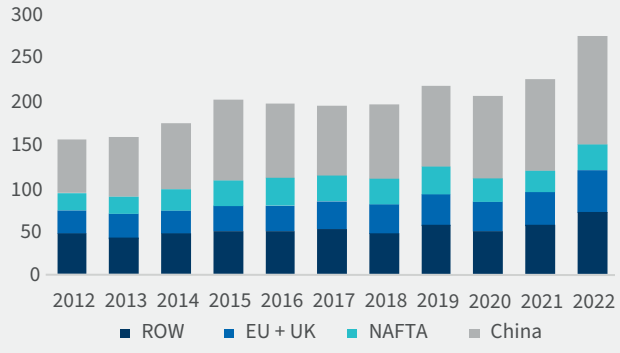
China's significant capacity growth poses a challenge for the European chemical industry. One of China's key objectives of the current Five-Year Plan covering 2021-2025, is to reduce the dependency on imports. In 2018, China's Ministry of Industry and Information Technology ("MIIT") stated that 32% of 130 basic chemicals could not yet be produced in China at all, and more than half of all fine chemical products would still have to be imported.

Over the past two decades, China has drastically increased its import substituting investment in chemical production by approximately more than 11% CAGR between 2005 and 2020, compared to more than 2% for EU and UK. By 2025, China's chemical industry capital expenditure is expected to reach $200 billion, representing approximately a 400% increase in volume compared to the EU and UK combined. As a result, over the last year chemical production has increased almost 20% in China. In 2024, 81% of all new chemical investment globally will come onstream in China. This expansion has reshaped global trade dynamics in the chemical segment. In addition to China's strategy, circumstances have propelled their move into other markets. As Chinese producers are confronted with weak domestic demand and a collapse in their own construction sector, their focus has turned outwards to other markets, including Europe. Many activities suffer from overcapacity and low operating rates, whilst newly built assets that are competitive on the world market are now increasingly fuelled with lower cost energy out of Russia. As a result, China has now become a net exporter in many chemical value chains. Together with increasing direct exports to Europe, this means an additional loss of capacity utilisation for the European asset base. By 2023, imports from China to Europe reached record levels and Germany – traditionally one of the strongholds in terms of export competitiveness – also had a negative trade balance with China in chemicals.

China is shifting from a focus on volume growth to higher-value products. Producers are increasingly targeting specialty chemicals and advanced materials linked to key sectors to advance the high-tech industry agenda, which have traditionally been European strongholds. This shift forces European companies to innovate and adapt, or risk losing market share.

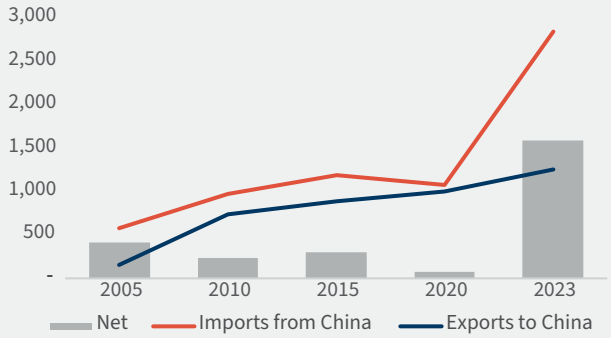
At the same time, trade restrictions have increased. There are numerous examples of anti-dumping investigations and anti-dumping tariffs that are ongoing or have been decided. Seen in the urea and ammonium nitrate, PET, melamine, Titanium dioxide and PVC value chains to name a few. For European chemical companies, navigating these restrictions is challenging – many will need to re-evaluate their strategy for a global chemicals market.

Graph 5: Global Capital Spending (€ billion)



Source: cefic, 'The European Chemical Industry, Facts and Figures 2023', December 2023. https://cefic.org/library-item/powerpoint-2023-cefic-facts-and-figures

Graph 6: EU27 Chemicals International Trade with China (€ billion, nominal)



Source: cefic, 'The European Chemical Industry, Facts and Figures 2023', December 2023. https://cefic.org/library-item/powerpoint-2023-cefic-facts-and-figures

A Regulatory Tsunami is Hitting European Chemicals Businesses Already Operating on Very Thin Margins

The European chemical industry faces an increasingly complex regulatory landscape. Regulations such as the Corporate Sustainability Reporting Directive ("CSRD"), the Supply Chain Due Diligence Directive ("SCDDD"), the Carbon Border Adjustment Mechanism ("CBAM") and the potential reactivation of the Registration, Evaluation, Authorisation and Restriction of Chemicals Revision ("REACH") make it challenging for businesses that are already operating on very thin margins.

A recent survey by the German Chemicals Sector Association, VCI, revealed that on average, chemical companies spend around 3-5% of their turnover on bureaucratic requirements. This makes it one of the key obstacles in business, especially considering the constantly increasing number of new regulations, that overwhelm small and medium-sized chemical companies in particular.

Going forward, we will see a continued reduction of the free emission allowances for chemicals based on the ETS benchmark approach. At the same time CBAM, designed to prevent carbon leakage by taxing carbon-intensive imports, will kick in – starting with the hydrogen and fertilizer value chains.

The intention of CBAM is to protect European producers, who face higher costs due to carbon taxes and new technology investments, from competition with less clean imports. However, it also negatively impacts the competitiveness of European exports. When European businesses are less effective in their export markets, the products will likely end up in Europe – potentially causing disruption in the home market. Also, the fact that a limited amount of commodities are on the current CBAM list opens the door for imports of non-clean derivatives. The current method of the European Commission to introduce CBAM with a 'learn-by-doing' approach will make it possible to course correct if needed. The first revision announced for 2026 will be an important milestone, to assess the impact on exports and to review the list of commodities, with potentially more value chains and more downstream products in scope. The way CBAM is going to play out in European and global chemical value chains is currently hard to predict, but it is likely to increase the cost base in Europe and impact the valuation of chemical assets. Notwithstanding its progressive implementation between 2026 and 2034, the impact on valuations and investment behaviour is immediate.

Concerns have also been raised about the increased bureaucratic burdens and compliance costs, particularly for smaller companies. The German chemical sector has expressed fears that CBAM could hurt competitiveness if other regions outside of Europe don't adopt similar measures, with the head of the German chemicals industry association VCI calling it a "bureaucratic madness".

The revision to REACH, which concerns chemical safety, has been shelved by the European Commission until further notice. This drew mixed reactions. While some industry players welcome the reprieve, others are concerned about the slower progress on environmental protection. With the new European Commission coming into force, there is an expectation that the REACH revision will be reactivated in the political process. Chemical companies should proactively make effort to understand where the legislation will potentially have commercial implications for them, and in a timely fashion prepare alternatives for their client base or try to take influence in the legislative process.

Alongside CBAM and the potential REACH revision, the CSRD and the CSDDD require chemical companies to report on "double materiality" — addressing not only the financial impacts but also the effects on people and the environment. These directives also require companies to uphold sustainability, ESG and human rights standards throughout their extended supply chains. In practice this means that hundreds of categories and subcategories of data related to climate, environment and human rights need to be identified, assessed for accuracy and prepared for reporting in a repeatable, efficient and consistent process.

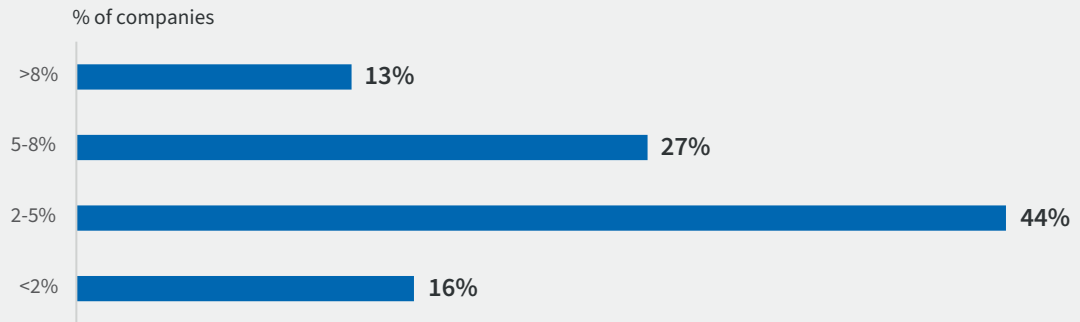
Many companies already struggle to collect data consistently across their global operations. In a chemical value chain — sometimes involving 10-15 production steps across various regions and a mix of in-house operations, suppliers and contract manufacturers — this process becomes especially challenging and complex.

While there is no doubt the outcomes we want to achieve are the right ones, it's likely that smaller chemical companies will face more difficulties to source on global markets and outside of the European Union, potentially affecting their competitiveness.

There are additional regulations in the making, with the UN Plastic Treaty probably the most significant global environmental agreement on the horizon since the Paris Climate Accords. With the support of the G7, it aims to reduce or restrain plastic pollution with binding measures across the entire product lifecycle.

The cumulative impact of these regulations on European chemical value chains in terms of effort, cost competitiveness and ultimately company valuations is not to be underestimated. Regulation has become a matter for the board ('Chefsache') and of strategic importance. Especially for smaller companies, we should not be surprised that it could lead to an eroding level playfield and lead to further industry consolidation — similar to what we have seen in other highly regulated sectors in the past, such as life sciences and telecom.

Graph 7: Estimated Bureaucracy Costs as % of Turnover



Source: VCI, 'Ergebnisse der Umfrage', June 2024. https://www.vci.de/ergaenzende-downloads/14-umfrage-ergebnisse-vci-online-juli.pdf

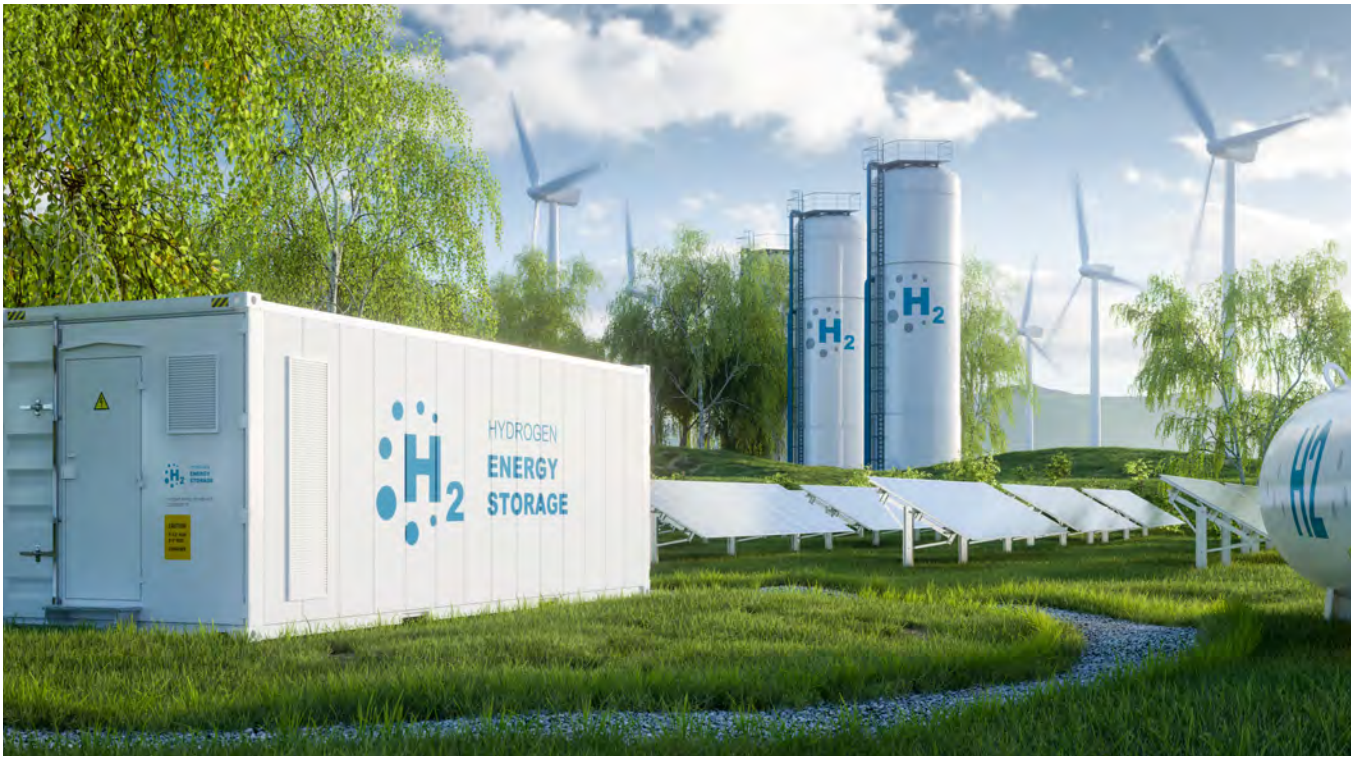
Climate Emergency: The Transition Towards a Lower Carbon and Circular Future

Despite significant challenges, there is broad agreement that Europe's chemical sector must transform toward a lower-carbon and circular future. Currently, the chemical sector in Europe is responsible for about 5% of Europe's total greenhouse gas emissions and ranks together with the steel sector and cement production amongst the highest emitting industries. Although achieving climate neutrality is technically feasible, the path forward is marked by considerable uncertainty and opportunity — both in terms of technology and business models.

This transformation also extends to the sector's efforts to achieve full circularity. Running chemical value chains in a more circular way, by preserving chemical and energy content in the molecules, has the potential to significantly reduce European dependency on energy and feedstock imports. Here innovation will be essential, particularly within Europe's base chemicals segment, which is under intense pressure due to high energy and feedstock costs, and is at the core of Europe's de-industrialisation risk. Developing advanced recycling technologies will be crucial to closing the loop and making chemical value chains as circular as possible.

The European chemical industry council CEFIC assesses that, for the development of necessary first-of-its-kind technologies to enable the use of low carbon energies and circular feedstocks, approximately €230 billion of capital investment will be required in Europe. The subsequent investment for scaling these technologies will likely reach even higher. That is no small feat, especially realising that historical capex investment levels have been hovering around €30 billion per year for the European chemical sector as a whole.

The sheer size of these investments also show that the challenge of the green transformation goes far beyond the technical dimension into the business model of the sector. For the transformation to also work economically, it will be key to earn a premium on the net zero and circular solutions the chemical sector is contributing to its end markets in mobility, construction, consumer and agricultural applications. Luckily the current understanding of end-use markets and trends reveals that consumers are increasingly willing to pay a premium for cleaner and more circular products, provided the products also offer better functionality and performance. In order for the transformation to be successful, it will have to be holistic, encompassing the process, technology, the product design and business model.



Financing Costs: The Upcoming Years Will Pose Major Challenges for Companies and Their Lenders

Since the European Central Bank began raising deposit rates in 2021 to curb inflation, financing costs for European chemical companies have clearly risen. However, when examining a sample of companies, it's evident that the full impact of these rate increases hasn't yet been fully reflected in their profit and loss statements. This is largely due to reliance on bonds and other fixed-rate debt instruments, which have reduced the yield spread by over 50%. Smaller companies, which rely more on variable-rate debt, are feeling the increase in interest rates and financing costs more acutely.

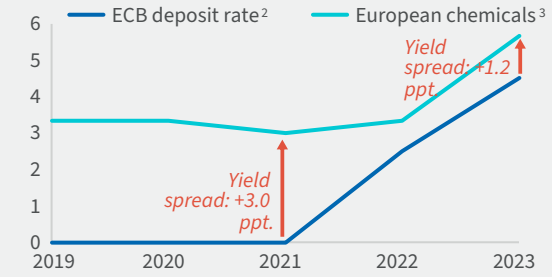
Examining approximately 100 European chemical companies from 2019 to 2024 shows rising financial strain in the sector:

— **Interest Coverage:** This ratio, calculated as operational cash flow over interest expense, measures a company's ability to cover its interest payments. Historically, coverage ratios ranged from 15 to 20, but they have recently fallen by more than 10 points, averaging between 5 and 10. Smaller companies are particularly affected, with average ratios dropping from 20 to 7, signalling heightened financial distress.

— **Net Leverage:** Defined as net debt over EBITDA, this metric reflects a company's debt reliance. Among medium-sized companies, net leverage has surged from 2 to over 7, pointing to increased financial risk and dependency on debt.

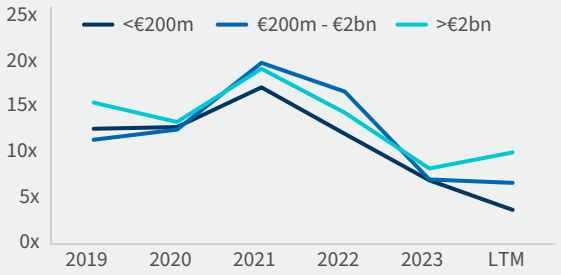
Since these metrics often play a role in debt covenants, declining interest coverage and rising net leverage suggests a higher likelihood of negotiation with lenders. Additionally, upcoming refinancing rounds in the chemical sector are likely to intensify financial stress for European chemical companies.

Graph 8: Interest Rates (%)



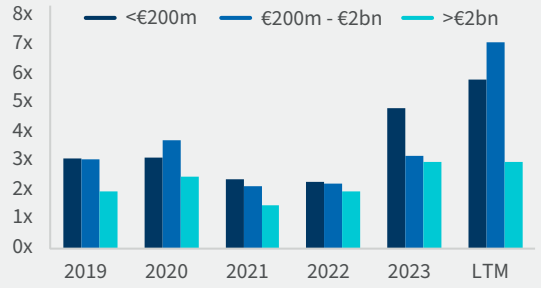
Source: FTI Consulting analysis from World Bank database
Note: Elevated interest rates are reflected in European chemical companies' profit and losses only to a limited extent

Graph 9: Interest Coverage



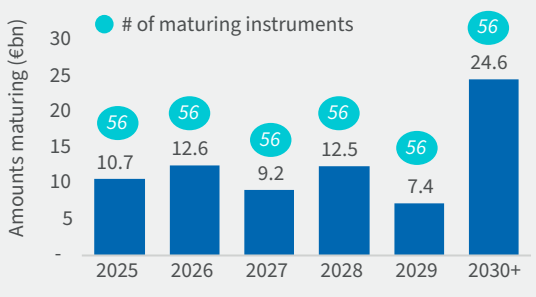
Source: FTI Consulting analysis from World Bank database

Graph 10: Net Leverage



Source: FTI Consulting analysis from World Bank database

Graph 11: Debt Maturities



Source: FTI Consulting analysis from World Bank database

How to Navigate the Current Unprecedented Landscape

Chemical companies are currently navigating a multitude of short-term crises and challenges, ranging from market and demand related, increasing geopolitical uncertainty and regulatory requirements. At the same time, they need to define, finance and execute sustainable transformation at the level of the business model and financing. Within this we see a number of trends, options and opportunities that can be implemented in varying degrees to overcome these challenges.

Asset and Footprint Rationalisation

Many chemical companies have put their European base chemical assets under strategic review, with the list of capacity rationalisations getting longer by the day. Several value chains and products are part of this process including olefins, ammonia and urea, acetone and phenol, caprolactam, styrene and many more. All European countries are experiencing the impact. Looking at the aggregate picture brings us to the brutal truth that for energy-consuming base chemicals assets the European market is partly de-industrialising. At the end of the process, it would not be surprising to see a reduction of 15-25% in European base chemicals assets.

Despite the ongoing rationalisation, plant closures and decommissioning of assets, the capacity utilisation of European assets remains low and vulnerable to changes in global trade flows driven by economic development in other regions, as well as sanction and tariff policies. Given the current outlook, for commodity chemicals it will likely take years to reach a balance between demand and supply both in Europe as well as globally. Therefore, if you are the owner of a base chemical asset in Europe, many of the profit drivers may be out of your control and the question comes down to whether you will be able to ride out the 2022-2025/2028 downcycle in the market. The answer to this question will depend on your investment thesis, position on the cost curves, how the market demand will evolve and cash position. The decision whether to stay invested in the business or not will depend on these variables.

The situation in the European specialty chemicals segment is more positive than in base chemicals. Very often specialty businesses have developed functional solutions tailored to specific customer applications, which gives them more power to preserve pricing in economic downturns. In addition, for specialty chemicals businesses, the lower cost in commodities works to their advantage because they are buying these raw materials at more favourable prices.

Restructuring and Performance Improvement Programs

There is hardly any chemical company in Europe today without a cost reduction, performance improvement, value creation or restructuring program ongoing. Many chemical corporates announce these programs to their analyst and investor communities. Covestro's 'STRONG', Evonik 'Taylor Made', Lanxess 'FORWARD!', and Bayer's 'Dynamic-Shared Ownership Program' are examples of the transformation programs large European chemical corporates have started to restore competitiveness.

What many of these programs have in common is a willingness to address the operating model beyond the core operations, including overhead functions and management layers. Very often these programs aim at increasing clarity, simplicity and agility in the organisation so as to bring the business closer to its clients by breaking down hierarchy levels. They also focus on fixed cost reduction, process optimisation and operational excellence initiatives. The overall objective of these cost savings programs is to provide the businesses with a cost structure they can afford to be successful.

Portfolio Review and M&A

As part of their strategy reviews, many chemical companies are streamlining and de-risking their portfolios, refocusing on their core businesses. By concentrating on their strengths, companies aim to align resources with areas where they have a competitive advantage and where real growth potential can be unlocked. This shift is about directing future investments toward core activities to strengthen them and capture new growth opportunities.

For areas outside of these core businesses, companies are exploring divestiture, partnerships or responsible closures to concentrate on their own strengths and growth opportunities.

In the European market, M&A will play a critical role in this portfolio shift, particularly as financing costs decrease. Players from the Middle East, with substantial investment budgets, are seeking to acquire chemical technologies to enhance and further develop their own value chains. The recent announcement of a mega-deal signed between ADNOC and Covestro is an illustration of this dynamic.

There are also hopes that buyer and seller expectations in Europe will start to align for certain assets. This alignment will accelerate once traditional value creation levers in transactions — such as revenue growth, margin expansion and valuation multiple increases — become viable again. With ongoing portfolio rationalisation efforts and substantial committed capital for investments, M&A activity is expected to normalise, helping drive transformation within the industry.

In this context, "buy and build" remains a viable strategy for value creation — though it only works where genuine synergies can be achieved, rather than simply merging organisations under a single holding structure. Historically, larger entities commanded higher multiples, though this trend has softened amid rising interest rates. This strategy must also contend with the cumulative pressures and challenges present across the European chemical industry.

Cracking the Code on China

China is the largest chemical market globally — more than three times the size of the EU27 market and nearly four times that of the U.S. market. For any chemical company with global leadership ambitions, engaging with the Chinese market is essential. The Chinese market is unique and shaped by a complex, evolving relationship between its government and economy. In the context of evolving geopolitical dynamics, it's crucial to see China not only as a market but as a state with distinct strategic goals.

In response to China's strategy for self-sufficiency in chemicals, its extensive capacity expansions in specific value chains and shifting global trade dynamics, multinational chemical companies are adapting in various ways. Some are intensifying their presence in China, given the market's critical importance. This approach, often described as "in China for China" or even "in China for global," uses Chinese operations as a launchpad for supplying other Asian markets. Often, these companies expand their local product offerings, form partnerships with Chinese firms, invest in technology development, and engage in strategic marketing and public affairs to emphasise a long-term commitment to China.

Amid tighter global regulations and increased trade pressures, many companies are also adopting de-risking strategies. These include safeguarding data management and operational models specific to China, relocating their Asian headquarters to other countries in the region, and establishing alternative, non-China supply chains.

Companies may also become more selective in their partnerships with Chinese state-owned enterprises due to considerations over dual-use technology.

To navigate this challenging environment, firms need to plan for different scenarios and rigorously test their strategies. This includes preparing for a range of potential outcomes — from a base case to further geoeconomic shifts or changes in regional security dynamics — so that organisations and operations are resilient under various conditions.

Navigating the Green Transition

In today's chemical industry, the scale and complexity of the green transformation requires capabilities that individual companies often lack and many projects develop alternative technologies that are too large for a single company to handle alone. Therefore, working in partnerships and consortia with others allows companies to share the burden, the risks and the opportunities related to new technology development.

Notable examples include collaborations on the world's first large-scale electrically heated steam-cracking furnace, developing new technology to produce chemicals and synthetic fuels from CO_2, and capturing CO_2 at chemical sites for storage in subsea geological formations ("CCS"). A common challenge for these technologies is that they compete for available renewable and low carbon inputs such as green electricity and hydrogen, which are also in high demand from other high-emitting sectors such as the steel industry.

Since the post-COVID period, first-of-its-kind technology projects have begun, but rising inflation has made engineering and construction considerably more costly than expected – with most technologies and projects still lacking a clear path to economic viability.

Achieving the green transition in the chemical industry will require broad support, and financial institutions desire to assist their chemical sector clients to make it happen. Recognising the immense scale of the task however, they can't bear this burden alone. Europe needs a more integrated and efficient capital market, substantial public funding and ultimately market demand that reflects the value of low-carbon chemical technologies in end-use applications. While banks, capital markets and government funding, as well as the regulator play a vital facilitative role, the end markets in mobility, consumer, construction and agrochemicals will ultimately have to drive the business case for the green

transformation.

For lenders, heightened caution is necessary as the green transition raises the overall risk profile of chemical companies, large and small, adding to already existing pressures that chemical companies must navigate in terms of market demand related, energy cost related, geopolitical, regulatory and financing challenges.

Staying at the Forefront of Regulation

Given the cumulative impact of European regulations on chemical value chains — affecting effort, cost, competitiveness and ultimately company valuations — it is crucial for European chemical businesses to stay ahead with a proactive approach to regulation.

This requires collaboration on both scientific and political levels. Chemical companies must actively engage in the regulatory process to help shape a pragmatic, forward-looking framework that aligns with industry needs. Many companies advocate for technology-neutral regulation and while they support the targeted climate outcomes, they emphasise that the choice of technologies to achieve them should be market-driven rather than government-mandated. Unfortunately, many companies find current European regulations overly prescriptive, lacking a risk-based approach to environmental impact, and stifling innovation that is much needed to achieve the outcomes aimed for by the green transition and the regulator.

We recommend that chemical companies engage in the regulatory process by:

— **Developing advocacy roadmaps:** This involves creating a roadmap that tracks key policy milestones, identifies influential political and economic players and their priorities, and prepares effective scientific and political arguments.

— **Building a robust public affairs function:** This function should actively address upcoming regulatory changes and structure collaborations with industry groups and other stakeholders to strengthen advocacy efforts.

Final Thoughts

The industry remains in a period of significant uncertainty with limited improvement in sight, particularly for base chemicals in Europe where value creation opportunities are scarce. Many value chains will likely require rationalisation and consolidation. How this unfolds will depend on the value chain specifics, the asset owner's investment strategy and their capacity to withstand market cycles. The outlook remains uncertain for most European chemical value chains, with upcoming tough choices in terms of asset and footprint rationalisation as well as restructuring and performance improvement programs. There is a need for a strategic response to the China challenge and innovative ways to navigate the green transition and the European regulatory landscape.

In contrast, specialty chemical value chains show greater resilience, as they often face fewer challenges related to high energy costs and decarbonisation efforts. They benefit from stronger pricing power, thanks to customised solutions that cater to specific client needs.

There is widespread hope that dealmaking will recover in 2025, with some indicators suggesting this might be the case. Chemical corporates are announcing portfolio reviews focused on their core businesses and are looking for solutions such as carve outs or partnerships for the assets that are beyond the future core business. Additionally, we expect private equity to contemplate exits in parts of their portfolio driven by investment cycle requirements. However, alignment between buyers and sellers is not yet clear. The current environment still presents serious barriers to effective dealmaking.

Around 20 years ago the U.S. chemical sector was a sunsetting industry. As of 2010 however, new technology development, including hydraulic fracturing and horizontal drilling technologies, gave rise to significantly lower energy and feedstock costs. Together with favourable business policies and economic support, the United States became a global hub for chemical production, with the Gulf Coast emerging as a powerhouse. Ultimately, the future of Europe's chemical sector today depends on how well companies and policymakers work together to embrace open technological advancement and complement this with forward looking support mechanisms and regulatory frameworks that are aligned with industry needs. Addressing the current challenges holistically will be key to support the industry in building a more resilient and competitive framework for long-term success.

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