AN FTI CONSULTING REPORT – APRIL 2026

European Chemical Industry

From Structural Stress to Strategic Reset

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Executive Summary

The European chemical industry has entered a structural reset. Persistently low-capacity utilization, rising closures and elevated insolvencies signal that the current downturn is not just a regular part of the cycle, but reflects deeper shifts in energy economics, global overcapacity and regional competitiveness.

Recent geopolitical turmoils like the closure of the Strait of Hormuz do not only show the vulnerability of global petrochemicals supply chains, but also demonstrate even more the necessity for the European chemical industry to develop into a more resilient and long-term competitive set-up.

Europe will remain critical in key segments, such as specialty and performance chemicals and sustainability-driven applications. However, the outlook is increasingly selective: energy-intensive and commodity segments face sustained margin pressure and consolidation, while specialties are more resilient but still constrained by structural downstream margin pressure.

Political initiatives — ranging from energy cost discussions to anti-dumping measures — may influence the speed of adjustment, but they will not reverse structural realities.

Effective turnarounds will require portfolio discipline, asset-level economics, liquidity management and early alignment with lenders and shareholders, over and above a simple cost-reduction approach only. How clearly, proactively and rigorously a restructuring or turnaround process is executed will be a decisive factor, not just the question of whether to restructure or not.

Why the European Chemical Industry Must Reset Now

The European, and especially the German chemical industry enters 2026 at a defining moment. The sector is under pressure and the European players need to use their structural strengths to perform a reset and establish their long-term competitive strategy to remain relevant and sustainable.

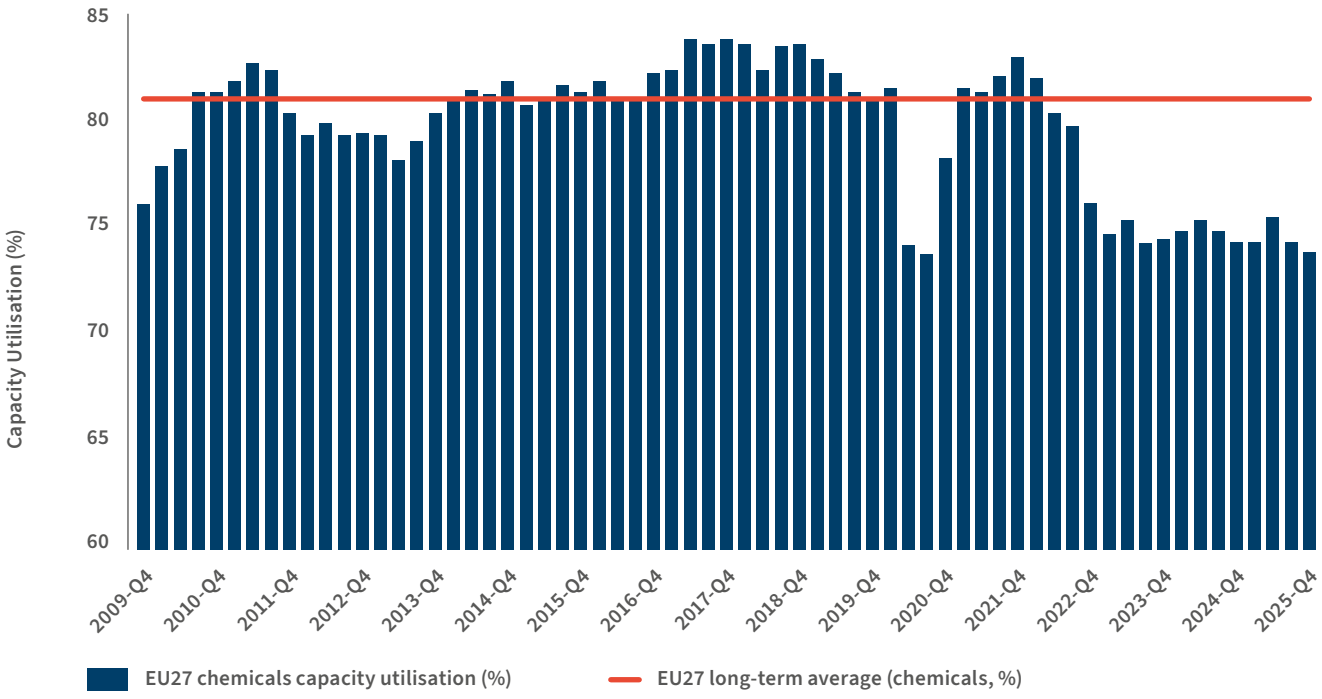
The years 2023-2025 were largely shaped by crisis management and the hope that business will recover. Accepting now that this recovery will be later that hoped for, the industry must switch gears and enter a deep and structural transformation period. Turnaround and transformation capability, portfolio discipline and execution strength will decide who remains competitive in the long term.

One of the indicators that the European chemical industry is facing this structural rather than cyclical challenge is the persistently low-capacity utilization. This matters because chemical assets typically require 80–85% utilization to be economically viable. At utilization levels below 75%, incremental cost cutting is mathematically insufficient and prolonged under-utilization ultimately forces capacity closures and mothballing.

Average capacity utilization in the European chemical industry has fallen to around 74%, well below long-term norms (see Figure 1). In several sub-segments — most notably petrochemicals, basic polymers, and other energy-intensive chemicals — utilization levels are estimated to be below 65%.

Figure 1

Average capacity utilization



Source: "Facts & Figures of the European Chemical Industry," cefic (December 2025) https://cefic.org/facts-and-figures-of-the-european-chemical-industry/growth-and-competitiveness/

In Germany, we see a similar picture, with utilization in parts of the industry at the lowest levels in more than two decades. During Q3 2025, capacity utilization was only at 70% in Germany.[1]

Europe is unlikely to regain its former global share. Current market outlooks and expert opinions suggest that Europe's share of global chemical sales will remain below 15%, even under optimistic demand scenarios for this decade, reflecting structurally higher energy costs, slower regional demand growth and continued capacity expansion in Asia and the Middle East.[2]

As a result, the current environment requires businesses to align capacity with structurally lower and more selective demand, rather than attempting to restore volumes to former levels.

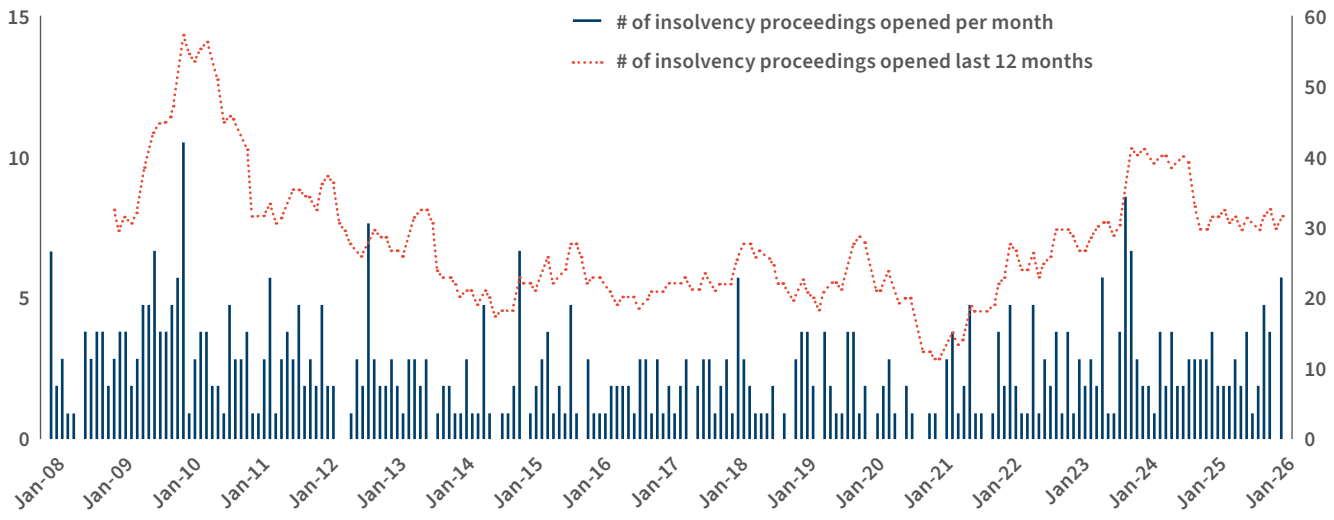
This structural alignment of capacities is already visible in the rising plant closures across Europe. Furthermore, in Germany, insolvency proceedings in chemical manufacturing have increased since 2021 and remain at elevated levels with more than 30 insolvency fillings opened per year since early 2024 – similar to the levels seen in the 2008 financial crisis (see Figure 2). Historically, insolvencies in the chemical industry have been below the industrial average.

But Europe is not becoming irrelevant. Far from it: in areas such as advanced intermediates, specialty and performance chemicals as well as sustainability- and regulation-driven applications, Europe will remain leading and system-critical. However, the outlook will be highly variable by sector. Petrochemicals and energy-intensive basic chemicals will continue to face margin pressure, consolidation and closures, while specialties are relatively more resilient, supported by innovation and regulatory drivers. But even there, downstream margin pressure remains a structural constraint.

At the same time, there is renewed political focus on strengthening the competitiveness of Europe's chemical industry, including discussions around energy cost relief, faster permitting and selective protection against carbon-intensive imports.[3] Such measures can influence the trajectory of restructuring, but they will not reverse the underlying economics. Even with policy support, Europe will not regain cost leadership in energy-intensive segments and global overcapacities are expected to persist for several years. Market participants increasingly point to stricter anti-dumping enforcement and security-of-supply considerations as areas where political support could become more tangible. Recent EU anti-dumping measures on certain chemical imports illustrate that trade defense instruments are being used more actively, although such steps are likely to remain selective rather than a broad-based solution.[5] Political support can enable better outcomes, but it will not eliminate the need for structural portfolio, footprint and capacity decisions.

Figure 2

Opened insolvency proceedings for Chemical Manufacturing



Source: Destatis Statistisches Bundesamt and FTI Consulting analysis

Why Restructuring in Chemicals Is a Special Case

Compared to many other industries, chemical companies tend to "hold on longer" before acting with structural measures like closing sites or production lines. There are several reasons why such restructuring measures are neither fast nor simple in the chemicals industry:

- **Unique nature of the industry:** The sector consists of sub-segments with fundamentally different business and operating models, success factors and customer dynamics, requiring any turnaround or restructuring approach consider at least a sub-segment perspective.
- **Safety-critical nature of chemical assets:** Chemical plants cannot simply be switched off. Shutdowns require highly qualified operating personnel, strict safety and environmental procedures, as well as regulatory approvals and inspections. Poorly prepared shutdown processes and closures at large integrated sites can create safety, environmental, and operational risks.
- **Volatility mindset:** Large parts of the chemical industry, particularly upstream, are accustomed to cyclicality and profitability swings. While riding cycles has historically been rational, the current environment differs. Rather than merely a demand downturn, there is a structural shift in economics, global capacity build-up and regional competitiveness. These factors will not revert quickly, making a pure "cycle recovery" approach increasingly insufficient.
- **Retention of scarce skilled labor:** Chemical operations rely on specialized engineers, operators and safety experts. Once lost, these capabilities are very difficult to rebuild. As a result, chemical companies often continue operating assets longer than economically optimal to avoid irreversible loss of know-how.
- **Verbund effects mean closures are not isolated decisions:** In chemical parks, assets are deeply interconnected. The closure of petrochemical or upstream units can remove feedstock supply for downstream plants, disrupt energy and steam integration, increase logistics and procurement costs. As a result, even economically healthy downstream businesses can become uncompetitive if upstream units are shut down. This makes restructuring chemicals a system-level problem, not a single-plant optimization exercise.
- **Competitive dynamics:** Competitiveness in chemicals is defined at the value-chain level, not at the level of individual assets or technologies. The viability of a plant or business depends on its relative position versus competing players serving the same end markets. As a result, restructuring decisions are often influenced by anticipation of competitor behavior — with companies delaying exit in expectation that weaker players will exit first. Consequently, survival is not always determined by superior technology or cost position alone, but by relative staying power and capital allocation decisions across the value chain.

Taken together, these factors explain why the chemical industry often restructures later, but then more fundamentally, than other sectors.

What a Structural Chemical Turnaround Requires

For many European chemical companies and assets, the focus is less about growth and more about restoring economic viability. Turnaround and performance improvement are therefore moving from short-term crisis response to scrutiny of the core strategic agenda.

Structural competitiveness cannot be achieved through short-term cost cutting, the benefit of which is now largely exhausted. Successful players are now addressing a structural reset through measures like strategic product and activities portfolio review and clean ups, asset footprint rationalization and leaner steering and operating models. From our point of view, best-practice programs need to target more than 10% sustainable EBITDA uplift, driven by end-to-end redesign rather than headcount cuts alone.

What makes effective chemical turnarounds particularly challenging is that restructuring logic differs materially across value chains. Petrochemicals and basic polymers remain exposed to global overcapacity and energy cost disadvantages, making consolidation and capacity reduction unavoidable. Energy-intensive intermediates depend heavily on-site integration and utilities economics, requiring system-level rather than plant-level decisions. Specialty and performance chemicals are more resilient, driven by differentiation and customer proximity, but still face margin pressure and require strict portfolio discipline. Consumer and care chemicals benefit from relatively stable demand yet must defend margins amid downstream consolidation and increasing private-label pressure.

It all starts with a strategic portfolio review, unveiling the uncomfortable truth — that focus and capital discipline are required, as turnarounds start with hard questions:

- Which businesses/assets truly benefit from Europe's strengths?
- Which business/assets were built or are based on cost structures that no longer exist in Europe?
- Which customer industries will remain in Europe?

Subsequent asset footprint rationalization and leaner steering and operating models require site-by-site, plant-by-plant and product-by-product economics. Leading companies implement:

- Granular plant and product profitability analyses
- Feedstock and value chain integration stress tests
- Explicit plant-level closure or reinvestment frameworks

Nonetheless, the standard toolbox of optimization consists of measures such as:

- Commercial excellence programs
- Energy and utilities make-or-buy decisions
- Product and SKU simplification
- Procurement discipline
- Operational excellence
- Automation and digitalization

These elements should not be neglected and must be integrated in the overall restructuring framework as well.

How to Succeed in a Prolonged Chemical Turnaround Phase

Even with a more positive start to 2026 — seen by moderate GDP growth, stronger political focus on competitiveness and initiatives such as a European Critical Chemicals Alliance or Germany's Chemieagenda 2045 — the industry will not grow its way out of its challenges.[4] A growing number of site closures, capacity reduction decisions and portfolio exits show that parts of the industry have already entered turnaround mode.

To execute turnarounds proactively, coherently and with a focus on value, the following principles are key to the approach:

— **Shift from fragmented crisis actions to explicit turnaround programs:** Many companies are already taking action —but often in a less systematic way, with isolated cost-cutting programs, individual site decisions or short-term liquidity measures. Leading players now elevate restructuring to a formal turnaround agenda, integrating portfolio, operational and financial restructuring. This shift creates clarity internally and credibility externally, particularly with lenders, investors, employee and regulators. Given the complexity and duration of such programs, companies must also assess management bandwidth, ensuring that operational leaders can focus on protecting and developing the core business, while dedicated turnaround leadership or external support structures drive restructuring execution.

— **Make structural decisions early:** In a market where closures are accelerating, waiting is no longer a choice. Early movers will have more options, whether sequencing closures, stronger negotiating positioning and preserving value in carve-outs or partnerships. Late movers risk being forced into less profitable outcomes driven by constraints rather than strategy. For investors and lenders, this reinforces the importance of early engagement, scenario-based planning and alignment on what constitutes a viable "core" going forward. In situations where leverage was incurred under favorable conditions, capital structure considerations and potential debt overhang need to be addressed in parallel. Early alignment between management, shareholders and lenders significantly increases the probability of a controlled turnaround. And any structural turnaround requires time — and time requires liquidity. In prolonged downturns, working capital can absorb significant cash. Beyond refinancing, companies focus on working capital release, selective asset disposals, sale-and-leaseback structures, joint ventures for capital-intensive assets and disciplined capex deferrals to extend liquidity.

— **Anchor restructuring in site- and portfolio-level economics:** Successful turnarounds include bottom-up baselines. Companies need transparent and granular economics by site, plant and product. This logic also provides a shared fact base for discussions with investors, lenders and regulators. In a structurally overcapacitated market, not every site or business can be restructured successfully. From an investor and lender perspective, viability hinges on a limited number of decisive factors: asset-level economics under realistic assumptions and a defensible structural advantage such as feedstock access, energy integration or customer lock-in.

— **M&A as a restructuring and capital-allocation tool:** For most players, disciplined divestment is now as important as in the past selective acquisition. M&A can accelerate restructuring, stabilize portfolios and redeploy capital. However, transaction markets remain selective and not every divested asset will attract strong buyer interest. Preparing an asset for disposal therefore requires credible standalone economics, transparency on cost structure, clarity on separation readiness and a realistic equity story aligned with market demand.

— **Protect and refocus innovation where it creates customer value:** Even in restructuring mode, cutting innovation indiscriminately is a strategic mistake. It is relevant to protect and sharpen innovation in areas where retaining relevance is of value. The objective is not innovation volume, but innovation with a clear path to monetization.

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