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TIPPING POINT: THREATS TO JOBS AND GROWTH IN EUROPE'S CHEMICAL SECTOR. A REPORT BY OXFORD ECONOMICS

Key insights and data points



Jeremy Leonard, Managing Director of Global Industry Services at Oxford Economics, says: *"This report lays bare the pressures confronting the European chemicals industry. High energy costs and regulatory compliance burdens combined with US tariffs and global overcapacity driven by China are significantly undermining European chemical producers' competitiveness"*

The European chemical industry is in rapid decline and has reached a tipping point

- **Production has declined to its lowest level in a decade.** In 2025Q2, output in the UK & Germany was 30% and 18% below its level in 2019 (pre-pandemic). Production stands 12% and 7% below 2019 levels in France and Belgium.
- In 2025Q3, chemical firms in Belgium, Germany, and France were operating at 72%, 73% and 79% of full capacity respectively.
- **Declining production has led to site closures and job losses.** In 2023-2024, more than 11 million tonnes worth of capacity have been announced to be closed in Europe, affecting 21 major sites.
- Between 2019 & 2024, the average annual growth in European chemical firms' **investment spending has been half the rate of their US counterparts** (1.5% versus 3.0%), a gap we forecast will persist in the next decade. Eight of the world's 10 largest chemical companies are scaling back or withdrawing from Europe, while **all of the top 10 US producers are investing and expanding.**

Three key drivers behind the European chemical industry's weak outlook

1. Energy price differentials

- In 2025Q3, European gas prices were **four times higher than in the US** and will remain just under three to four times higher than in the US over the next 5 years.
- While Europe relies on LNG imports which are both more expensive and volatile, **China utilises discounted Russian gas to support its industry and chemical production** further undermining UK and European chemical competitiveness.
- Industrial electricity prices for European producers are currently **between two and three times higher than industrial gas prices.**
- As a result, unless industrial electricity costs fall substantially, **higher rates of electrification will further erode the European chemicals sector's competitiveness** relative to other jurisdictions.

2. Environmental regulation and other regulatory pressures

- Through the EU's and UK's Emissions Trading System, chemical companies pay for the CO2 they emit. **These costs are not paid by companies exporting into the EU or UK**, putting them at a financial disadvantage. **It is forecast that carbon prices in Europe will increase even further, more than doubling by 2040.**
- It is estimated it will require **€800 billion–€1 trillion of investment** for the European chemicals sector to meet net zero goals. **Other jurisdictions do not have such ambitious decarbonisation targets.**

3. Rising foreign competition & trade imbalance

- While Europe's chemical producers' output is at its lowest for a decade, **chemical imports into European countries have increased substantially.** Since 2019, total chemical imports into Belgium have increased by 60% whilst imports into Germany and France have increased by nearly 50%.
- China have significantly ramped up their domestic chemical capacity, **fuelled by cheap Russian gas/crude oil.** Due to relatively weak domestic demand, focus has shifted to exporting to European markets. **Chinese imports of chemical products into the EU increased by 34% between 2019 and 2024.**
- This expansion has also prompted Middle Eastern and US chemical companies to shift their export focus towards European markets.

- Under the **new EU-US trade deal**, EU chemical firms wanting to export to the US will face a 15% tariff (previous 6.5%). US chemical producers now face a zero tariff when exporting into the EU (previously 6.5%).
- Tariffs protecting US business mean Chinese **product that was destined for US markets will now be redirected into Europe**.

Three key implications of decline

1. Economic

- The chemical sector is Europe's fourth largest industrial sector. It's heavily interwoven with the European economy and employs 1.2million people.
 - For every job in the sector, it supports between 3.0 to 4.6 jobs elsewhere in Europe through its supply chain and through staff spending their wages in the consumer economy.
 - For every €1 million the sector contributes to GDP, it supports another €1.1 to €1.4 elsewhere within the domestic economy.
- The sale of each €100 million of chemical products produced by any of the four major chemical producing countries in the EU and UK supports between 620 and 830 people in employment across Europe (directly, through the supply chain or the consumer economy).
 - By comparison, if production moved to the US or China, the purchase of €100 million of imported chemicals **would result in 580–790 fewer jobs** being supported in the EU and UK as import activities are only estimated to support 30–40 people through the use of European suppliers and consumer spending impacts.

2. Strategic

- Chemicals are essential to critical national infrastructure, healthcare, transport, defence, construction, manufacturing and more.
- For example, chlorine is critical for water treatment, solvents are essential to produce medicines and vaccinations, and carbon fibre is necessary to produce lightweight transportation and defence systems.
- Increased import dependence has **significant implications for national security**.

3. Environmental

- The decline of the European chemicals sector means that Europe will increasingly rely on imports of chemicals. These chemicals will be produced in a more emissions intensive manner in economies such as China, the US, and the Middle East.
- Emissions data suggests that chemicals production would produce twice the carbon emissions if production was in the US and three times the carbon emissions if production took place in China.
- Additional emissions will also result from the greater distances the imports are required to travel.
- Therefore, **paradoxically, the decline of the EU chemical industry may raise global emissions**.

We need urgent action, or the UK and EU will lose a pillar of its industrial base

- Cutting taxes and levies on industrial energy and providing targeted relief could stem the tide and prevent further closures.
- Targeted tariffs and well-designed carbon border measures will protect Europe's market share from competitors who are using subsidised or low-regulated energy.
- Restoring free allocations and reducing CO₂ pricing would provide immediate relief and buy time for investment in decarbonisation technologies like CCS and hydrogen.

The full report can be downloaded here: . <https://we.tl/t-qIW3ot22J2>