European chemicals: shifting from destocking to decoupling

Structural headwinds threaten the recovery for commodity producers; outlook negative

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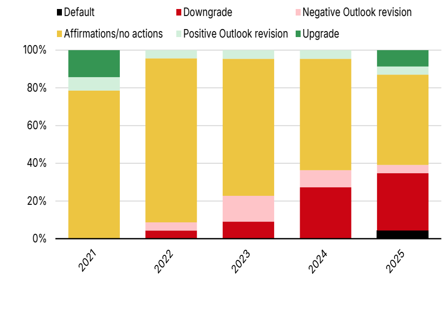
The European chemical industry faces difficult quarters ahead, as the recovery in demand expected after the cyclical destocking in 2024 has failed to materialise. Instead, the sector is confronting adverse structural changes that may lead to more capacity closures over the next few years. European production remains burdened by structurally high energy costs compared with Asia and the US. China's transition from a primary export market to a direct competitor also continues to alter the supply-demand balance for European producers. This shift is most acute in the commodity segment, where low-cost supply from China and Latin America is increasingly displacing domestic output. In parallel, prolonged demand weakness in sectors like construction, automotive and agriculture is weighing down on commodity and specialty firms. These pressures have dictated precariously low capacity utilisation which is likely to persist in 2026.

Leverage for the 14 companies covered by Scope will fall through the year but commodity chemicals firms face a tougher challenge. Many are still struggling with high leverage, while volatile feedstock costs make it hard to predict when margins and credit metrics will improve. A turnaround for these producers looks unlikely until utilisation rates improve through shuttering capacity.

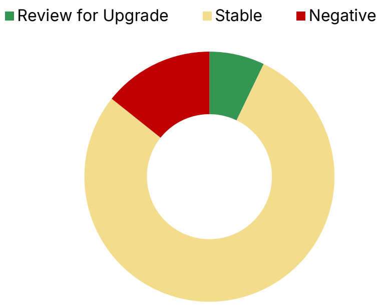
In contrast, specialty and integrated players remain more resilient. Their robust risk profiles, global footprints, and pricing power protect them from the macro challenges impacting commodity peers. Benefiting from generally healthy balance sheets, these companies are well positioned to maintain credit strength through 2026 despite the broader structural challenges facing the European sector.

Figure 1: Increasingly negative ratings drift for chemicals companies covered by Scope



Source: Scope Ratings

Figure 2: Outlook distribution at end-2025



Source: Scope Ratings

Table 1: Key trends impacting credit quality

+	Recovering margins and de-leveraging, although with weaker visibility for commodity names
+	Healthy balance sheets, geographically diversified footprints, and pricing power for specialty chemicals
−	Muted end-market demand from construction, automotive and agriculture sectors
−	Structural energy disadvantage and Chinese capacity growth eroding European competitiveness
−	Utilisation rates near record low levels, putting under question the viability of less efficient capacity

1. Overcapacity, loss of competitiveness remain structural challenges

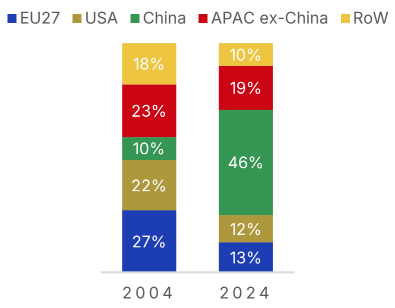
European producers battle high energy costs, cheap imports

The dramatic destocking cycle that weighed down on the sector from 2024 has largely run its course, but a robust recovery in demand looks unlikely in the near term. Instead, demand will remain structurally impaired by multiple adverse factors, likely pushing the sector into a period of capacity rationalisation possibly involving plant closures.

The European chemical industry continues to grapple with a structural energy price gap that undermines global competitiveness. The extreme volatility of 2022-23 has subsided, but European natural gas prices remain relatively high, roughly 200% above US Henry Hub prices and 50% higher than in China. This premium is mostly explained by the LNG procurement costs (liquefaction, shipping and regasification) of gas imported to Europe which has replaced cheaper imports from Russia. Since natural gas is a power source and primary feedstock, that premium puts European producers at a permanent disadvantage.

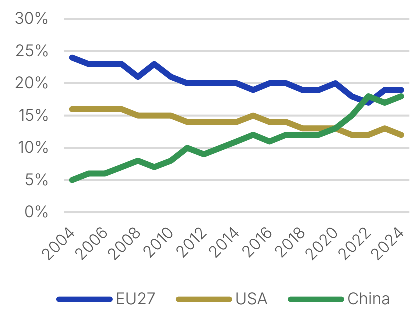
The global market is saturated, driven largely by a massive wave of capacity additions in China and the Middle East. China has moved from being the world's largest importer of chemicals to a self-sufficient producer, increasing its share of chemical production to 46% from 10% in 20 years. (**Figure 4**).

Figure 3: Chemical product sales



Source: Eurostat data, Cefic 2025 report, Scope

Figure 4: Share of global chemical exports



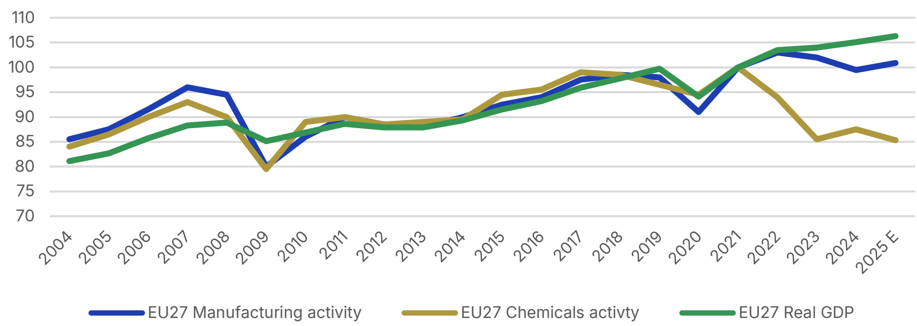
Source: Cefic Chemdata International, Scope

Weak local demand represents another headwind for European sector

Domestic demand in Europe remains weak, providing little relief for regional chemical production. Global GDP will likely expand by at least 3% over 2026-27, but Europe's annual growth is likely to be only around 1.5% (Global Economic Outlook 2026), as other industries struggle with cost competitiveness. Growing reliance cheap chemical imports over domestic production has squeezed European chemicals firms despite the post-pandemic rebound in European manufacturing.

Figure 5: The EU economic cycle is decoupling from domestic chemical activity

Production index (2021 = 100)



Source: Eurostat data, Cefic 2025 report, Scope

Poor capacity utilisation hangs over European chemicals sector

European chemicals utilisation rate falls to 75% from around 82%

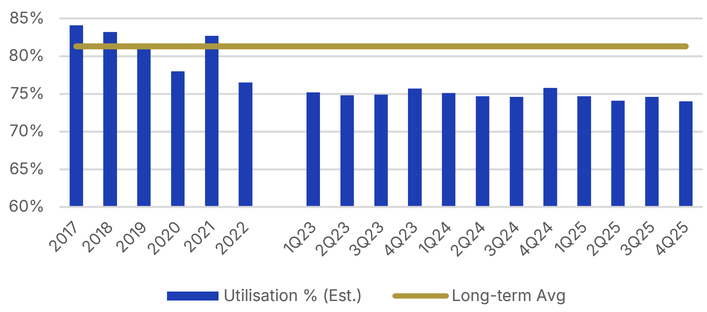
Capacity utilisation rates for the chemicals sector have declined to around 75% over the past three years, well below the ~82% historical average, reflecting a combination of all those factors, including European manufacturers' switch to cheaper imports from locally produced chemicals.

Reports from Cefic, the EU chemicals industry association, indicate that, at current utilisation rates, operations no longer cover fixed costs, a situation that has led to the permanent closures of 11 million tonnes (approx. 3% of nameplate capacity) between 2023 and 2024.

Stagnant demand and uncompetitive energy prices will continue into 2026, so more capacity closures are likely until utilisation rates return to more sustainable levels. Beyond capacity rationalisation, firms are increasingly pursuing strategic asset disposals to high-grade their portfolios. This is exemplified by BASF and LANXESS, which have sought to divest non-core or more volatile commodity-linked businesses to sharpen their focus on higher-margin specialty segments.

Figure 6: The sector has struggled with overcapacity since 2022

Utilisation rates for European chemical capacity



Source: Cefic 2025 report, Scope

2. Specialties remain resilient as commodities face a fragile recovery

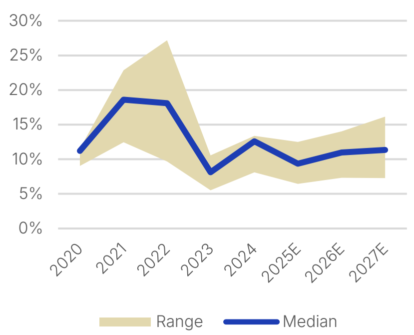
Specialty companies better able to handle structural challenges

This section refers to the credit profiles of the 14 companies we cover in the sector

Commodity-focused firms are likely to see a slight EBITDA margin improvement over 2026-27, although visibility in some cases remains rather limited due to highly volatile feedstock costs. In other cases, companies should benefit from a progressive pivot towards better margin verticals, including disposals and new capacity additions over this period. Generally, we expect debt/EBITDA ratios to peak in 2025 before gradually reducing, particularly for those companies currently reporting outsized leverage due to the slump in performance in 2025.

Figure 7: Scope-adjusted EBITDA margin

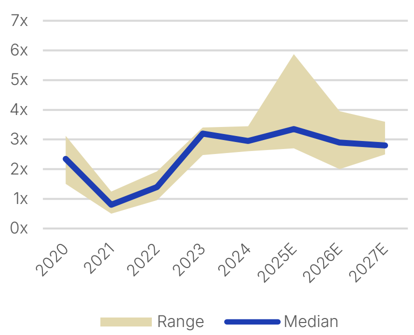
Commodity-focused firms



Source: Scope Ratings

Figure 8: Scope-adjusted Debt / EBITDA

Commodity-focused firms



Source: Scope Ratings

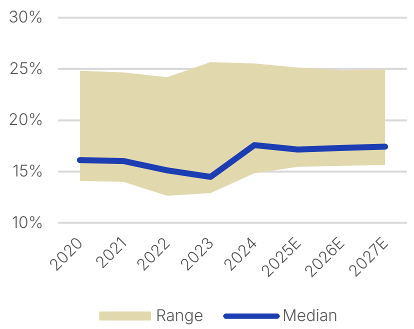
More resilient outlook for integrated, specialty firms

Pricing power helps specialty chemicals producers

This resilience of the subsector is grounded in global scale and significant geographic diversification, with over half of their operations now located outside Europe. The higher barriers to entry for making specialty chemicals products – such as adhesives, coatings, polymers and resins – and corresponding pricing power also underpin the subsector's performance while strong balance sheets offer significant credit protection from the pressures currently impacting commodity-focused peers. In the case of issuers carrying above-average debt loads, we expect credit-repair measures in 2026, including non-core asset disposals and downward capex revisions.

Figure 9: Scope-adjusted EBITDA margin

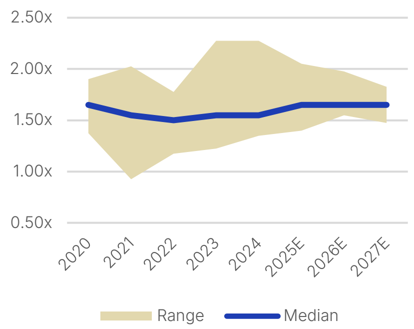
Specialty and Integrated firms



Source: Scope Ratings

Figure 10: Scope-adjusted Debt / EBITDA

Specialty and Integrated firms



Source: Scope Ratings

3. Rating coverage

Scope's peer group of rated entities with a public or a subscription rating, excluding private ratings.

Rated entity	Rating	Country of origin	Sub-sector
Air Liquide SA	A/Stable	FR	Specialty chemicals
ARKEMA SA	Subscription rating available on ScopeOne	FR	Specialty chemicals
BASF SE	Subscription rating available on ScopeOne	DE	Commodity-focused chemicals
Borregaard ASA	A-/Stable	NO	Specialty chemicals
Elixir Group d.o.o.	BB/Stable	RS	Commodity-focused chemicals
Elkem ASA	BBB-/Under review for a possible upgrade	NO	Commodity-focused chemicals
Envien International Ltd	B+/Negative	SK	Commodity-focused chemicals
HENKEL AG & CO KGAA	A/Stable	DE	Specialty chemicals and consumer products
Kerry Group plc	Subscription rating available on ScopeOne	IE	Specialty chemicals
LANXESS AG	BBB/Stable	DE	Specialty chemicals
Linde plc	Subscription rating available on ScopeOne	DE	Specialty chemicals
Neova Oy	BBB-/Stable	FI	Commodity-focused chemicals
Pannonia Bio Zrt.	B+/Negative	HU	Commodity-focused chemicals

Related research

Corporate Credit Outlook 2026, February 2026

Global Economic Outlook, December 2025

Sovereign Outlook 2026, December 2025

Chemicals Rating Methodology, June 2025

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