The Dutch chemical industry's elusive production recovery

Things might be looking up for the Dutch chemical industry in 2025 – but just like the country's economic climate, we're not expecting a full-fledged recovery just yet. Structurally high energy prices aren't exactly helping matters, and this is massively undermining competitiveness

The sun is beginning to set on our hopes for a full recovery in Dutch chemical production next year

No full-fledged recovery in 2025 due to weak European economy

The outlook for the chemical industry is seemingly brighter for 2025 than for 2024. Next year, production growth is expected to be significantly faster than it is this year (at 3.0% vs just 1.0%), but a full recovery to the early 2022 level isn't likely to materialise. Coming from a low level of activity, growth is, therefore, large in relative terms – but modest in absolute terms.

A strong economic upturn is taking longer in Europe as structural and cyclical bottlenecks persist, and increasing geopolitical turmoil is creating additional headwinds. This isn't great news given that around 80% of the chemical products manufactured in the Netherlands are sold to European customers.

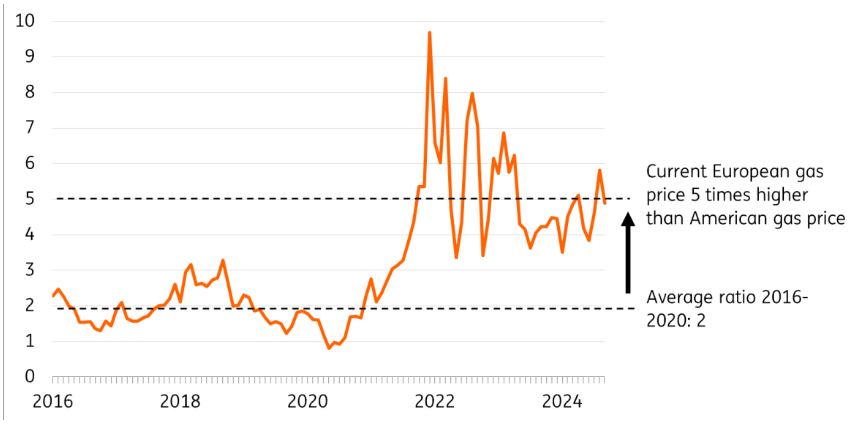
Competitiveness remains at risk due to high energy prices

Chemical companies are hampered by structurally higher energy prices. Gas prices in Europe are still five times higher than in the US; prior to 2021, they averaged a multiple of two. Additional LNG capacity will become available on the global market in 2025, however, and that could push prices down somewhat.

On the other hand, concerns remain about supply risks, such as potential disruptions to Russian pipeline flows through Ukraine and long-term maintenance in Norway. This is fuelling ongoing turmoil and market speculation. While there's no longer an acute threat of crisis due to well-filled gas storages, European gas prices are likely to remain higher in 2025 than they have in the past. As a result, the chemical industry's competitive position remains under pressure.

Gas prices in Europe much higher than in America

Ratio between gas price Europe (based on Dutch TTF) and America (based on Henry Hub)



Source: Macrobond, ING Research

Exports to US and Asia pick up

Despite relatively high production costs due to elevated energy prices, Dutch exports of chemical products to countries outside the EU in particular are growing this year. And while the Chinese economy is growing less rapidly than previously thought, growth is still much higher than in Europe, as it is in other Asian countries. Growth differentials are expected to remain substantial in 2025.

Demand for chemical products from the US is likely to grow less rapidly due to its cooling economy, but demand from Asia continues to rise sharply. The least can be expected from the European markets for the time being as growth across the region remains weak. As an early-cycle sector – i.e., one that typically performs well in the earlier stages of the business cycle – the chemicals sector is at the forefront of benefiting from a moderate cyclical upturn, but expectations are not high for many European end markets such as construction and manufacturing.

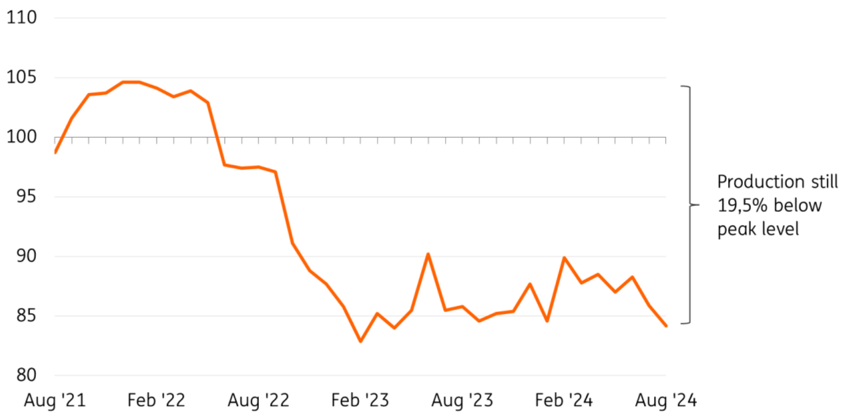
Production still almost 20% below its peak

Given the challenging circumstances, it's not surprising that the chemical industry isn't quite climbing out of the deep valley it has fallen into since the sharp production contraction in the second half of 2022.

Between the start of 2023 and 2024, production increased only slightly. Since then, we've seen a decline for several months – and this means that production is almost 20% below its peak of early 2022. In addition to a moderate recovery in exports, renewed stock build-up for Dutch producers and traders may also lead to more growth in 2025.

Production down again after modest recovery

Production level chemical industry, Netherlands, avg. 2021 = 100



Source: Statistics Netherlands

Positive expectations for the short term, but order books poorly filled

On a more positive note, chemical producers expect more orders and production for the next three months. Both sentiment indicators are above their long-term averages.

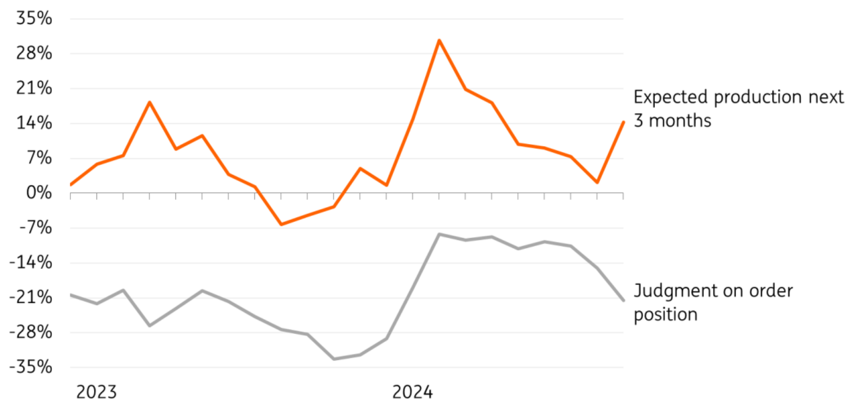
At the same time, producers have been increasingly dissatisfied with the entire order book since the summer, which confirms the impression that there remains no sign of a strong rebound for the time being. Since the beginning of this year, chemical companies saw a slight increase in their profitability; there is not much room for further improvement for now.

Meanwhile, commodity prices are developing more favourably than they have in recent years – but energy prices remain high, wages are still rising rapidly, and weak demand and subsequent overcapacity are putting persistent pressure on prices. What's more is that the risk of rapidly rising oil prices due to a further escalation of Middle East tensions remains tangible.

Despite the policy of retaining employees for as long as possible due to the tight labour market, chemical companies find themselves forced to increasingly reduce their workforce. Reorganisations have been announced by the Dutch branch of Dow Chemical, Evonik in Germany, and recently by Akzo Nobel and BASF.

More production expected, but order books poorly filled

Development of sentiment indicators in the chemical industry



Source: Statistics Netherlands

Investments are under pressure but are desperately needed for the future

Stagnation in the recovery of capacity utilisation reflects the difficult market conditions and puts pressure on the willingness to invest in the short term. Expensive energy, ambitious climate policies and structurally scarce staff aren't going to make the Dutch and European business climate better for chemical multinationals any time soon. Investments are therefore structurally under pressure – but they are desperately needed for the energy transition in these industries. Nowadays, chemical multinationals more often plan their large-scale investments outside Europe.

Market conditions structurally more difficult
The large global overcapacity of the main petrochemical building blocks – with China accounting for almost 70% of total global capacity expansions – puts persistent pressure on petrochemical capacity in Europe, which has already declined over the past decade. Unequal subsidies and complex regulations on sustainability are also putting pressure on chemical production in the longer term. In the Netherlands, energy tariffs are even higher than in other European countries due to higher network costs and fewer government subsidies, and structural lighting is still a long way off. In addition, the Netherlands is the only EU member state that has a CO_2 tax on top of the EU Emissions Trading System (ETS), and the nitrogen dossier continues to delay large-scale investments for the time being.

Tailor-made agreements and the "Clean Industrial Deal" could strengthen the competitive position
Despite faltering investments in new facilities, the industry is not sitting still. For example, there are plenty of pilot projects aimed at making production processes in the chemical industry more sustainable with green hydrogen. Infrastructure for this is in the making.

The Netherlands is also a leader in CO_2 storage with the Porthos and Aramis projects (port of Rotterdam and North Sea). In addition, the individual tailor-made agreements between companies and the national government, which are to be further developed, could encourage more green chemical investments. Salt producer Nobian is the furthest along in this respect, but completion is still pending.

Support will also be needed to stimulate more investment in research and the implementation of more sustainable alternatives. Innovations such as electric cracking with green hydrogen, chemical recycling or the use of biobased raw materials require large, long-term investments. This is already happening in the development of hydrogen technology. Seven hydrogen projects are supported by €800 million in European 'IPCEI' funding. In this area, Dutch companies with a large number of patents applied for are among the frontrunners. The "Clean Industrial Deal", which is at the top of European Commission President Ursula von der Leyen's list of priorities, could also strengthen the Dutch chemical industry's competitive position in the long run.

Pharma continues to outperform chemicals

The Netherlands remains a popular location for international pharmaceutical companies due to its strong position in both the development and production of innovative medicines. The European Medicines Agency (EMA) in Amsterdam, the pandemic and the call for more strategic independence and better availability of medicines have strengthened this. From 2019 to 2023, the pharmaceutical industry was the fastest-growing industry in terms of production, with an average growth rate of 8% per year.

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