The Future of the Chemical Industry
Which sectors and strategies can help German companies remain competitive

1. What impact will the trade tariffs imposed by the US government have on the European chemical industry?

Martin Bastian: This question is difficult to answer because everything is still in flux. That is also one of the reasons why most companies did not adjust their earnings guidance for 2025 in their quarterly results presentations. In the chemical industry, it is important to differentiate because local production is usually geared toward the local market according to the principle of "in the region for the region." The impact of the tariffs varies depending on the segment, product group, and market integration. Medium-sized companies in the specialty chemicals sector with few international locations and a higher export share are particularly hard hit. In any case, the tariffs are a wake-up call for European and German companies to think more about regionalized value chains, strategic location management, and political engagement.

Tariffs on basic and intermediate chemical products and specialty chemicals particularly affect export-strong EU countries such as Germany, especially for (intermediate) products such as plastics & polymers, additives and pigments, and organic fine chemicals. If there are no alternative markets, this leads to price adjustments or margin losses. But even if alternative markets do exist, it also has an impact, as competition in these markets intensifies. There are also indirect effects due to disrupted supply chains. Tariffs on Chinese raw materials and intermediate products, e.g., for active ingredients, special ingredients, or intermediates, lead to price increases or a shift in demand to other countries of origin, which could also be an opportunity for EU producers. However, they also lead to supply chains being brought back to the US and European suppliers being displaced in the long term.

Gunter Lipowsky: It is unlikely that production will be shifted to the US as hoped by the US government. German companies will not take such decisions in the short term due to the uncertainty in the markets. Such investments would require long-term planning security, which we currently do not have. And it takes 2-4 years for an investment to take effect, as planning and construction typically take that long before the first product can flow out of the plant.

2. Is Germany still competitive as a chemical production location?

Gunter Lipowsky: Germany only has limited competitiveness in basic chemicals, i.e., in large, energy-intensive plants such as petrochemical crackers or ammonia production. High raw material and energy prices, regulatory pressure, and the costs of CO_2 certificates and cheaper alternatives worldwide are putting the industry under enormous pressure. In some cases, this leads to cost disadvantages of 20-30% or more. In specialty chemicals, where know-how, product functionality, supply chain flexibility, and adaptation of products to customer requirements are more important, Germany is still very competitive. In some cases, we are still the leader, but we have to constantly stretch ourselves to maintain our advantage, as China and India in particular have caught up.

Even though basic chemicals no longer appear to be a profitable segment, they are necessary as a starting point for higher-value specialty products and polymers. We need them to a certain extent to provide meaningful support for regional specialty chemicals. The right balance must be found. With targeted investments in innovation, less capital-intensive specialty chemicals, infrastructure, and transnational partnerships, Germany can maintain its leading role in many areas, but no longer as a global champion in basic chemicals. This sector is undergoing a profound global transformation. Countries with lower production costs, such as the Middle East and the US, are gaining market share. Investments in “green” chemistry are being promoted in Europe, which is good for innovation but expensive for existing processes. However, we should not see this as a disadvantage, but rather as an opportunity for Germany to gain a competitive advantage in the future with “green” innovations. We can only position ourselves with new technologies that are also competitive in the long term. This takes time; success will not come immediately.

3. Can you give us a few examples?

Gunter Lipowsky: At the moment, we are seeing a significant competitive adjustment in basic chemicals. Countries such as the US and Saudi Arabia are benefiting from cheap natural gas and oil and subsidies and can offer their products at significantly lower prices. German producers have to scale back their production significantly or, in the worst case, shut down. We have recently seen steps taken by international companies to temporarily or partially close capacities in Europe. The risk of such production relocations is growing, especially in energy-intensive areas such as chlorine, ammonia, and plastics production. One example is the closure of ammonia production at BASF, where even the assets are to be dismantled and sold.

Many international corporations such as Dow, LyondellBasell, and Sabic are gradually withdrawing from basic chemicals in Europe. European companies such as Evonik and Lanxess are focusing on high-margin subsegments in specialty chemicals, circular solutions, and biochemistry. Relocations, outsourcing, and the sale of “unprofitable” production lines are the order of the day. Companies from the Middle East, such as Adnoc, are increasingly investing in European chemical companies such as Covestro and Borealis/OMV to integrate value chains and secure technological know-how. Many of these acquisitions serve the purpose of vertical integration, from crude oil to specialty products, and attempt to secure the best of both worlds. For Germany, this can create new dependencies, but it can also enable capital inflows for strategic investments and access to raw materials, thereby surprisingly strengthening the country's position. To put it positively: European companies are attractive because they are primarily seen as sources of expertise in specialised segments.

4. How can the German government and the EU support the industry?

Martin Bastian: From the perspective of German industrial policy, the basic chemicals sector was hardly considered strategic until recently. The transformation was largely left to the market. However, the new government can provide decisive impetus here. We need a comprehensive industrial electricity price. Without it, production in Germany will remain unattractive. Support programs for decarbonization, such as investments in hydrogen, CCS/CCU, and electrification, are helpful for long-term transformation, but do not provide any short-term relief. At the EU level (Green Deal, CBAM), competition protection through the Carbon Border Adjustment Mechanism (CBAM) also only has a long-term effect and is bureaucratically complex. A reduction of bureaucratic hurdles and a significant simplification of reporting requirements will help all companies, but especially small and medium-sized enterprises, to focus much better on their core business.

5. Are we witnessing a deglobalization of the chemical industry?

Martin Bastian: The chemical industry is not undergoing complete deglobalization, but rather a reorganization and re-regionalization of global production and supply chains. Germany and Europe are increasingly no longer the first choice for new large-scale investments, but rather the US and Asia. This means that the German chemical industry must adapt even more to multi-regional production models and stronger strategic location selection with a view to energy and raw material costs, skilled workers, and customer proximity.

We are seeing an increasing focus on re-regionalization and fragmentation with the goal of resilience rather than efficiency. In the wake of the pandemic, the war in Ukraine, and supply chain crises, companies are looking for more robust, regional structures. At the same time, strategic self-sufficiency is growing in importance. The US, China, India, and the EU are each actively promoting their own value chains, e.g., through reshoring, local production, and trade barriers. This has an impact on global supply chains in the chemical industry. “Just-in-time” is being replaced by “just-in-case,” resulting in more warehousing, multiple sources of supply, and diversification of production sites. This strategically reduces dependence on China, especially for critical intermediate products such as pharmaceuticals and fine chemicals. As a result, supply chains are becoming shorter, but not self-sufficient. Complex chemical products remain globally distributed, but critical production of, for example, active pharmaceutical ingredients is set to become more local.

China remains the largest and most important production and sales market, accounting for over 40% of global chemical production, but with growing ambivalence. Investment in China will continue, but companies are increasingly turning to “China+1” strategies by establishing additional production sites in India and ASEAN, for example. Regardless of the current political leadership, the US remains the “safe haven” of global chemistry.

6. Where are Germany's strengths in a global comparison?

Gunter Lipowsky: Europe, especially Germany, has excellent conditions for playing a leading role in the field of sustainable, intelligent, and “regulated” chemistry—but only if this is specifically promoted. Without structural energy relief, investment incentives, and a strategic raw materials policy, there is a risk of losing industrial sovereignty, with corresponding consequences for the economy, employment, and climate targets.

Martin Bastian: Germany is a global leader in specialty chemicals, process know-how, and engineering. It has a dense research and innovation landscape with highly qualified workers and good intellectual property protection. Integrated chemical clusters such as the sites in Ludwigshafen, Höchst, Marl, and Stade, to name just a few, and the sites along the Rhine from Cologne to Oberhausen are competitive, and the leading position in sustainability-driven chemistry in particular represents an immense opportunity.

7. Is the Green Deal in Europe in danger?

Martin Bastian: Under Trump, the abolition of IRA climate subsidies, withdrawal from the international climate agreement, renewed promotion of fossil fuels, and the relaxation of environmental regulations threaten to put European chemical companies at a significant competitive disadvantage. The Green Deal thus becomes a relative competitive disadvantage for

Europe. It is not fundamentally in question, but its design must be adapted to reality in terms of industrial policy, otherwise there is a risk of deindustrialization of the sector and further relocation of production abroad. The EU has already responded to this by temporarily suspending certain reporting requirements, relaxing agricultural regulations, and discussing a more pragmatic implementation of ESG and taxonomy rules. The aim is to maintain competitiveness without completely sacrificing climate targets.

Gunter Lipowsky: The European chemical industry has also benefited from climate targets and framework conditions for technological and environmental leadership. We are leaders in specialty chemicals with low environmental impact, technologies for CO_2 avoidance and circular economy, sustainability certification, and green standards. This technological leadership in green chemistry offers global advantages for European companies, especially in regulated markets. We have not heard from the market that investments are to be stopped here. Companies are very interested in continuing to advance new technologies, as they have high hopes for technological leadership. But it has to pay off.

8. What strategies can German chemical companies use to secure their competitiveness in the future?

Gunter Lipowsky: The German chemical industry can remain globally competitive, but not through volume-oriented production, but by focusing on special competencies such as technology leadership, customer integration, application expertise, and a regulatory-savvy location strategy. Possible approaches would be to focus on high-margin, technology-driven specialty chemicals, as Evonik and Clariant are doing with their targeted withdrawal from less profitable segments and their focus on additives such as highly active surfactants or actives. Opportunities also lie in active portfolio streamlining with the separation of volatile or low-margin segments, partnerships/joint ventures in critical but lower-margin parts of the value chains, and targeted acquisitions for horizontal consolidation in attractive segments.

Higher investments in R&D and innovation promotion in bio-based materials, CO_2 utilization (CCU), recycling technologies, digital chemistry such as material simulation and process optimization, as well as collaborations with universities and start-ups can also prove to be a sensible strategy. And last but not least, building additional capacity outside Europe offers a good way to mitigate geopolitical risks.

Martin Bastian: Another way is to leverage the "synergy advantage" and increase efficiency with capacities adapted to demand, as is the case with BASF or smaller chemical clusters, for example. Maximum resource efficiency can be achieved through integrated production structures and the use of cycles to reduce costs and emissions. German chemical companies must treat application knowledge more as a strategic asset and focus accordingly on key applications and growth markets.

9. What is the situation like for medium-sized chemical companies in Germany?

Gunter Lipowsky: Medium-sized companies remain stable but vulnerable. Their success depends heavily on exports, innovation, and energy prices. Germany has highly specialized and very successful family-owned niche providers with close customer relationships and high innovation rates. However, due to costly regulation in the EU and the associated bureaucracy, they have a further competitive disadvantage in the form of a certain lack of capital for "major" transformation. There will be a selection process, and companies with sufficient capital resources will continue to be successful or will have to enter into (capital) partnerships. Their high attractiveness is also recognized by international investors, who increasingly see medium-sized companies as takeover targets.

10. What role do mergers and acquisitions play in the restructuring of the chemical industry?

Martin Bastian: They play a central role in the restructuring of the chemical industry. Not as an end in themselves, but as a strategic instrument for repositioning along technologies, markets, and value chains. I expect M&A activities with a clear strategic focus to increase. Technology, market, and location logic are replacing classic volume logic in the context of smaller to medium-sized transactions in the technology and specialty chemicals sector, especially in the SME segment. But there will also be an increase in divestments of lower-margin businesses as part of portfolio streamlining at larger chemical companies in the form of so-called “primary carve-outs” with private equity as investors. I expect isolated transactions with family-run medium-sized companies due to succession arrangements and increased cost and investment requirements or thin equity capital and unfavorable conditions.

For German chemical companies, it will be crucial to secure access to attractive growth and cost markets as well as innovations through targeted transactions. I expect high M&A momentum in the areas of specialty chemicals, bio & green chemistry, circular economy/recycling, electronics and battery chemistry, and life science ingredients.

11. And what are the main drivers?

Martin Bastian: Geo-economic forces are driving M&A to establish a local presence in the US, Europe, or India for the purpose of re-regionalizing supply chains. We are also seeing capital exports from Europe to more profitable markets with better raw materials and energy base, primarily the US. Strategic realignments such as the focus on growth areas such as specialty chemicals, life science ingredients, and the circular economy, or the withdrawal from low-margin areas such as basic chemicals or commodity polymers such as polyethylene, PVC, etc., are also driving M&A activity. And then there is the pressure to consolidate due to overcapacity, which has built up regionally in Asia and globally in parts of basic chemicals, such as the methanol chain, polyolefins, fertilizers, etc. The financing and capital structure and the current weak corporate profitability are also leading to over-indebtedness or restructuring in some cases for smaller companies with low earnings and higher-debt private equity investments, resulting in attractive entry opportunities for companies and investors. Restructuring specialists are already seeing higher levels of activity here than in the past.

12. And how do investors view the chemical sector?

Martin Bastian: Investors do not expect a short-term recovery of the sector as a whole this year. At the moment, valuations across the entire industry have fallen significantly compared to previous years due to macroeconomic uncertainties. Companies with a higher presence in the more energy-intensive basic chemicals sector in Germany have suffered a relatively significant discount compared to focused specialty chemicals companies. Investors are focusing on companies with growth-oriented, resilient, and technologically differentiated business areas that generate sustainable cash flow. Companies with higher debt levels and the resulting restrictions on strategic and operational growth flexibility are also valued significantly lower by the market. This has also had an impact on M&A valuations.

Gunter Lipowsky: In basic chemicals, we are seeing an increase in potential portfolio adjustments of European business units of international chemical companies, e.g., Dow, SABIC, LyondellBasell. These are increasingly attracting turnaround and value investors. For traditional private equity investors, refinancing has become more difficult due to higher interest rates and exit windows narrowing. Some investments can no longer service their debt burden and need to be restructured. However, demand for new investments remains high, partly due to the high investment pressure from the investor funds collected, but it is more selective and often involves smaller “tickets” and more conservative debt.