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# IENE Comment

## European Chemicals Industry Flashes Red



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*By Irina Slav\**

Chemicals manufacturers in Europe are sounding an alarm that the political elite would do well to listen to: one of the most fundamental industries in the EU is struggling to survive. If it doesn't, it will take many others with it.

Last month, the head of the European Chemical Industry Council warned that chemicals makers in the EU are on their last legs, burdened by tonnes of climate regulations and ever-higher energy costs. The combination of these factors has driven investments sharply down and prompted the shutdown of capacity at an accelerated pace. Unless things got turned around, the industry was not going to survive, the director-general of Cefic warned.

The chemicals industry underpins every other industry, everywhere. Without its products, sectors such as car manufacturing, consumer products, pharmaceuticals, and agriculture, among others, would have to switch to more imports—and that's not something that looks good when the EU has declared it wants to become less dependent on imports.

The big problem, of course, is energy costs. Climate regulations and emission reduction mandates contributed significantly to the closure of 5 million tonnes in chemicals capacity last year alone, with the total capacity closures since 2022 standing at a whopping 37 million tonnes. That's equal to 9% of European chemicals manufacturing capacity.

This, however, is not all. Along with capacity closures, investments have dried up as well. Last year alone saw an 80% drop in investments in the chemicals industry. As Cefic's Marco Mensink put it, speaking to the FT, "The sector is under severe stress and breaking."

Mensink's warning was echoed this week by the president of Cefic and CEO of BASF, Markus Kamiech, who called for a revision of the EU's carbon trading system, notably the rethink of a phase-out for free carbon permits. The EU wants to phase these out in order to stimulate lower-emission energy among industrial consumers. It has so far

remained oblivious to the multiple warnings that this is unrealistic and harmful to industries. Now, the chemical majors are spelling it out.

“Most concerning are the energy and carbon costs that we are facing,” Kamiech told the FT this week, adding that the EU’s Emissions Trading System was “obsolete” and that it was costing BASF alone “triple-digit millions” every year. The executive then went on to warn that total costs for emission permits among EU companies could soar as high as 1 billion euro annually in the 2030s. Needless to say, soaring costs are not exactly conducive to competitiveness or, indeed, profitability.

The EU political class treasures the ETS. Energy policymakers see it as a crucial instrument in advancing Brussels’ net-zero agenda. The problem is that they appear to consistently ignore the adverse consequences of this approach to net zero, namely, saddling companies with mounting additional costs that may or may not stimulate higher investment in low-carbon energy technology but will—and have—undoubtedly compromised their ability to compete with lower-cost producers and are now threatening their very survival.

There have been signs that those in Brussels are starting to get worried about the state of the European industry and may consider listening to the warnings. None other than Germany’s Chancellor said it might be a good idea to suspend plans for the phase-out of free carbon permits when the ETS gets reviewed, which should happen later this year.

That suspension, however, would not be enough. BASF is already struggling to foot the bill for its current emissions and if the biggest player is struggling, then the smaller ones are barely surviving. This means that the EU needs more than a potential halt of plans to remove free carbon permits. It needs to rethink its whole approach to incentivising companies to reduce their emissions, which has so far focused on penalising undesirable behaviour progressively—the more you emit, the more you pay, and even if you don’t emit more, you keep paying more and more for each tonne of CO<sub>2</sub> emitted.

The EU’s emissions of CO<sub>2</sub> have declined by 37% since 1990, per official figures from the European Commission. This is quite a feat. Alas, that feat has come at a cost and that cost is becoming increasingly difficult to stomach. Perhaps, instead of piling the regulations on, those in charge of policies could consider the option of rearranging

their priorities: perhaps put the survival of an essential industry higher than that 55% emission reduction target for 2030.

*\* Irina Slav is an Energy Journalist and Contributing Editor, IENE Newsletters*

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3, Alex. Soutsou Str. 106 71 Athens, Greece, T: +30-210 3628457, 3640278, F: +30 210 3646144,  
[marketing@iene.gr](mailto:marketing@iene.gr), [www.iene.eu](http://www.iene.eu)

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