

EU regulatory burden erodes industry competitiveness


BARIL:

'Customers are unwilling to pay a premium for low-carbon products.'

The European petrochemical industry frequently cites EU environmental legislation as a drag on the sector's competitiveness. For the Shell Group's European chemicals business, the impact is on many levels, with some regulations adding substantially to the organization's costs, according to Vincent Baril, Policy and Advocacy Lead/Chemicals and Products at Shell.

In an interview with Chemical Week ahead of the European Petrochemical Association (EPCA) Annual Meeting in Berlin, Baril said that the EU Emissions Trading System (EU ETS) is among the costliest in terms of compliance.

"Although the Shell Group supports an effective EU ETS as a key policy measure to deliver cost-effective sectoral decarbonization, it is fair to say that hard-to-abate industries, and with that Shell Chemicals Europe, are significantly impacted by several key pieces of current EU environmental legislation, with the EU ETS one of the most financially burdensome," Baril said.

The EU ETS is the cornerstone of the EU's climate policy, placing a price on carbon emissions. The current design requires industry to fully decarbonize by 2040, with a rapid phase-out of free emission allowances.

"The rising cost of carbon, combined with the accelerated removal of free allowances and limited relief from the Carbon Border Adjustment Mechanism [CBAM], is placing pressure on the cost base of Shell's European chemical assets," Baril said. "This is happening in a context where capital and operating costs in the EU are already significantly higher than in other regions, imports are rising, and customers are generally unwilling to pay a premium for low-carbon products."

As a result, the business case for deep decarbonization projects is "increasingly difficult to justify, placing a question mark on the long-term viability of Shell's chemicals operations in Europe," Baril said.

Other regulations that weigh on competitiveness include the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulation, which governs the safe use of chemicals and imposes "extensive compliance obligations," Baril said. "A major simplification effort is urgently needed to make compliance more manageable, especially for smaller operators, without compro-

mising safety or environmental goals," he said.

The CBAM, currently operating in a transitional phase, is intended to prevent carbon leakage from the EU. The mechanism imposes a carbon cost on imports, "but offers limited protection for EU-based producers," Baril said. "Moreover, due to the complex nature of the chemical industry, CBAM will be extremely difficult to trace and audit at a global scale with the transparency needed to protect EU industry," he said.

Because of the heavy burden, EU environmental legislation is a major factor shaping Shell's petrochemical strategy in Europe, according to Baril.

"The increasing regulatory pressure, particularly from the EU ETS, and the limited protection offered by the CBAM is driving a fundamental reassessment of the long-term viability of certain assets," Baril said.

Shell Chemicals is pursuing a strategy in Europe focused on "profitable decarbonization," Baril told Chemical Week. "This means that any investment in decarbonization must be economically viable, which currently requires the EU to implement additional policy instruments that can effectively support these long-term investments," he said.

Given the deteriorating competitiveness of the EU petrochemical sector, Shell plans to focus on unlocking value from its existing chemicals portfolio in the region. "This includes exploring options such as strategic partnerships to share risk and investment, and where necessary, potential exits from less competitive assets, that were announced during our Capital Markets Day presentation in March," Baril said.

In July, the European Commission launched an initiative to address the administrative burden and bureaucracy associated with EU regulations, through the Action Plan for the Chemical Industry, which includes a Simplification Omnibus Package to streamline and simplify key EU chemicals legislation.

"EU regulation implementation is often overly complex, burdensome and costly for companies," Baril said. "We welcome the commission's aim to simplify regulatory sustainability reporting, and sustainability due diligence obligations, in the recent Omnibus Package. Shell supports harmonized and simplified principles-based sustainability reporting standards to improve transparency and comparability, as well as corporate management systems for

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human rights and environmental due diligence.”

As new sustainability reporting and other regulatory requirements outside the EU proliferate — such as the International Sustainability Standards Board — the EU “should consider the interoperability of its own legislation with global requirements and standards to avoid conflicting regulatory regimes which threaten multinational companies’ ability to comply,” Baril said.

Baril stressed the need for urgent implementation of the EU Action Plan for the Chemical Industry, if it is to bring a material improvement in the industry’s competitiveness.

“The chemical industry action plan contains many good intentions and promising ideas,” Baril said.

“However, the key now is for the EU to urgently translate this plan into concrete, effective instruments that can help close the growing competitiveness gap between Europe and other regions. Amongst these should be measures to boost demand for decarbonized products.”

Increased imports and a “limited willingness” among customers to pay premiums for low-carbon products, make it challenging to balance the “significantly higher” capital and energy costs in the EU, according to Baril.

“The EU would benefit from introducing mandates on the sale of finished products containing chemicals in the EU, that deliver investments into the decarbonization of their European industrial value chains, while providing a compliance pathway for importers,” he said. “A market-based mechanism that links a mandate on the sales of finished products to the CO₂ abatement in EU-based decarbonization projects, would provide a financial incentive for such projects.”

The damaging material impact of Europe’s lack of competitiveness in petrochemicals and other basic chemicals is visible in the wave of capacity rationalization that has occurred, or been announced, across the region during the last 18 months.

According to Baril, the decline in competitiveness of Europe’s base chemicals sector can be attributed to three main factors: Weak global demand for petrochemicals; high energy costs in the EU compared with other regions; and the “elevated” regulatory and compliance costs.

“Regulation is not the sole cause, but it is a major contributor to the erosion of competitiveness,” Baril said. “The cumulative impact of these pressures is already triggering a wave of plant closures across Europe, and this trend threatens the security of supply for essential base chemicals on the continent.”

If it continues unabated, the restructuring process could change the whole face of Europe’s petrochemical industry, according to Baril.

“If no corrective action is taken, the European petrochemical industry is likely to emerge smaller, more consolidated, and focused on niche or high-value segments, rather than large-scale commodity production,” he said. “This shift could result in reduced domestic production capacity, increased reliance on imports, and loss of industrial value chains and high-quality jobs.”

The industry is at a critical moment, but Baril believes there is still time for the EU to respond. “Urgent and targeted measures are needed to restore competitiveness — through energy cost relief, regulatory simplification and investment support — to preserve value creation, employment and supply security for Europe’s chemical sector,” he said.

European petchems’ future hinges on lower energy, carbon costs

The European Commission’s Chemical Industry Action Plan, announced in July, is a sign that politicians in Brussels are listening to the petrochemical industry’s concerns and beginning to understand the depth of the crisis facing the sector. Industry associations, on the whole, welcomed the plan and called for its urgent implementation. But some chemical companies, including Ineos Group Ltd., criticized the plan, saying that it fails to address the high cost of gas and the escalating cost of

carbon emissions — two of the most immediate threats to the survival of Europe’s petchem industry.

A significant reduction in these costs is nevertheless still achievable, according to John McNally, CEO at Ineos Project One, which is building the company’s new ethane cracker at Antwerp, Belgium.

“It’s very realistic — if politicians stop delaying,” McNally told Chemical Week in an interview ahead of the European Petrochemical Association (EPCA) Annual Meeting in Berlin. “Gas is four times the US

Thrive through Turbulence



MCNALLY:

'The EU needs policies that balance environmental goals with economic reality.'

price. Carbon costs in Europe are clearly uncompetitive versus importer pricing. The fix can be straightforward: secure long-term LNG, remove levies from industrial bills, and suspend carbon costs or provide more free allowances until there's a suitable carbon border adjustment. The will is missing, not the means."

The EU Action Plan opens the door to the use of tariffs, antidumping duties and state subsidies to protect the EU petrochemical industry. These measures are justifiable, given the depth of the challenges, but the solution ultimately lies with policy makers, said McNally.

"We'd rather compete on a level playing field, but if others can dump cheap, untaxed product into Europe, you match their conditions and defend your industry," said McNally. "Tariffs are a short-term tool. The long-term fix is competitive energy and carbon policy. The Chemical Industry Action Plan, launched by the European Commission, leaves the financing of energy measures largely with EU member states. This is far from an ideal solution as it increases the risk of an uneven playing field between member states with varying financial capabilities."

Over the past 18 months, high costs, together with global overcapacity and weak demand, have triggered a series of steam cracker closures or restructuring in the European petrochemical industry. McNally expects this trend to continue or even accelerate, unless action is taken, and believes the current profile of the industry is under threat.

"It will continue for years, unless Europe changes course," he said. "We'll end up with a much smaller industry, if any, making niche products, while bulk petrochemicals are made in the US, Middle East and China, where energy is lower cost and there are no carbon costs. To perform its sustainable transition, Europe needs policies that balance environmental goals with economic reality."

Ineos Project One, when it comes onstream in 2027, is poised to fill some of the gap left by the cracker closures that have been announced in Europe.

"The European crackers that are now being closed are 'old-timers,'" said McNally. "The owners of these plants are faced with a choice: invest significantly to continue to maintain and decarbonize the assets to extend their lifespan or take capacity out of the market. In a bottom-of-cycle period, the pendulum swings towards the latter, as is demonstrated by the facts. When capacity of old plants is taken out of the market, it frees up space for renewal. We will fill this space with Project One. We are in a different competitive

position as we will produce ethylene in a highly efficient way with the lowest environmental footprint and with a cost advantage."

McNally noted that imports of polyethylene increased from 21% of the EU market in 2012, to 32% in 2024. And these figures could even increase under the new tariffs regime of 0% import duties into Europe for these products, due to the EU-US trade deal, he said. "This suggests that a significant part of the overcapacity is due to an increase in imports from regions that have a cost advantage," McNally said. "We have incorporated this cost advantage with Project One — including through our efficient production processes, and choice of feedstock — so that we are well equipped to face this competition. An investment like ours is based on long-term prospects."

Ineos is "very positive" about Project One, McNally said. "It's the most efficient, lowest-carbon cracker in Europe, and when it comes online, we expect it to have 50% lower CO₂ emissions than the next best cracker in Europe. It is also worth noting that Europe needs ethylene as a basic raw material for many products that we all take for granted made in Europe. With so many closures of crackers announced, ethylene from Ineos Project One will be in high demand."

Ineos itself has participated in the petchem rationalization wave, having announced the closure of its phenol/acetone plant at Gladbeck, Germany, in June. The company, meanwhile, is striving to reinforce its remaining sites in Europe.

"We're doing what we do best — reducing our fixed costs and unnecessary spend across our business, and investing in efficiency and integration," McNally said. "But if Europe won't create a fair environment, more plants across the industry generally will close. The US is a far better place to invest right now."

McNally is confident that Ineos can ride out the current downcycle, drawing on the company's fundamental strengths.

"Despite the challenging trading conditions, Ineos maintains a solid financial foundation with a proven record of managing its business through the bottom of the cycle while safeguarding liquidity," he said. "We have applied tight financial controls across all sites, reviewing costs, in light of industry pressures, while continuing to invest in core growth projects such as Project One and the acquisitions of CNOOC's US assets, TotalEnergies' share of the Lavéra joint venture, and LyondellBasell's EO&D business. At the same time, Ineos is pressing European politicians to take decisive action to restore the competitiveness of the region's chemicals sector."