



FEDERCHIMICA
CONFINDUSTRIA



SITUATION AND OUTLOOK FOR THE CHEMICAL INDUSTRY

MARCH 2026

THE DECLINE IN CHEMICAL PRODUCTION IN ITALY CONTINUES UNABATED

Chemistry – with over 2,800 companies, 116,000 highly skilled employees and a turnover of 63.5 billion euros in 2025 – is the country's fifth largest industry. Italy is the third largest producer in Europe, with even more significant positions in various specialist production areas.

Even more significant is the multiplier effect and highly pervasive impact of the sector on the entire economy: 100 euros of added value in the chemical industry generates a further

232 euros across all related supply chains. Chemicals are, in fact, the “industry of industries”: **their products are essential components of 95% of the manufactured goods** used to meet every need, from mobility to health and well-being, from clothing to agriculture and food, from communication to housing. With over 590 million euros per year allocated to R&D and 8% of its workforce dedicated to this area, the chemical industry transfers innovation to the entire production system.

The year 2025 – affected by geopolitical uncertainties, US tariffs and the strengthening of the euro against the dollar and yuan – saw a further decline in chemical production in Italy (-2.6% after -0.5% in 2024)..

In a context of uncompetitive energy and raw material costs accompanied by a lack of recovery in industrial demand, activity levels remain 13% lower overall than in 2021. Compared to basic chemicals and plastics – which are more energy-intensive and exposed to situations of overcapacity at international level – fine and speciality chemicals show a more moderate decline (-5.5%). The

critical issues also affect the plastics recycling supply chain in a context of shrinking demand for recycled materials and imports from outside the EU that are not always truly circular in nature. Some segments – starting with cosmetics – are, on the contrary, continuing to expand significantly.

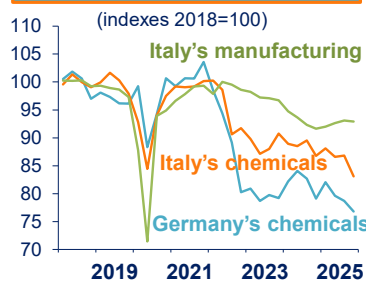
The critical issues do not only concern Italy, but involve the entire European chemical industry, which is experiencing a worrying wave of rationalisation. According to a recent study commissioned

Chemical industry in Italy in 2025

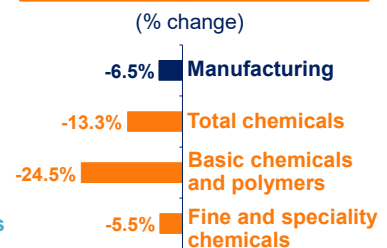
| | |
|--------------------------------------|-------|
| Value of production (billion euro) | 63.5 |
| - of which exports (billion di euro) | 40.1 |
| Companies (number) | 2,849 |
| Employees (thousand) | 116.1 |
| Investment in R&D (million euro) | 595 |
| R&D personnel / employees | 8% |

Source: Istat e Federchimica

Chemical and manufacturing production



Production levels in 2025 compared to 2021



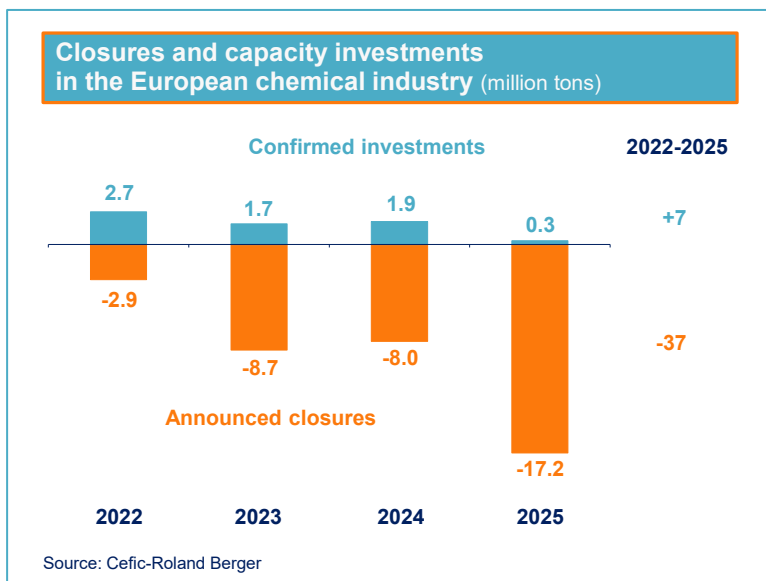
| % change of production | 2024-2025 | 2021-2025 | Forecast 2026 |
|------------------------|-----------|-----------|---------------|
| Chemicals in Italy | -2.6 | -13.3 | -1.5 |
| Chemicals in Germany | -3.3 | -21.5 | |
| Manufacturing in Italy | -0.5 | -5.7 | |

Source: Eurostat, Federchimica

by Cefic (the European Chemical Industry Council) and conducted by Roland Berger, **the loss of capacity associated with the announced closures of European chemical plants has increased sixfold since 2022, resulting in a reduction of 37 million tonnes, corresponding to 9% of European production capacity.**

The announced closures affect 20,000 direct jobs in the chemical industry, putting a further 89,000 jobs at risk in related supply chains. During the same period, investment in production capacity in Europe fell from 2.7 million tonnes in 2022 to just 0.3 million tonnes in 2025. The net impact of closures and investments is

negative, especially for basic chemicals and plastics, while specialty chemicals are more stable. In the presence of integrated production and strong supply chain links, the risks of a domino effect and possible upward pressure on specific chemical products or by-products should not be underestimated.



Looking ahead, in light of the tentative and uneven signs of recovery in industrial demand and unresolved critical issues on the supply side, chemical production in Italy is expected to decline further in 2026 (-1.5%), with significant downside risks related to the evolving conflict in Iran and possible shutdowns of the most energy-intensive activities in the face of sharply rising costs. On the one hand, the situation in the Middle East may limit import pressure, including from Asia (given that 55% of its imports depend on Middle Eastern virgin naphtha). On the other hand, the negative impact on demand is likely to prevail, while supply difficulties could arise for some chemical products. The negative legacy of the fourth quarter of 2025 will, in any case, affect the current year. Among customer sectors, the most positive impulses are expected to come from consumer goods (food and cosmetics) and capital goods (electrical engineering, mechanics). At the other end of the spectrum, demand from the automotive and fashion industries will remain weak.

Although the new European legislature intends to pay greater attention to competitiveness, the repositioning measures taken so far are too timid. Some environmental objectives (starting with climate neutrality) will not be achievable without conditions of economic sustainability, given the technologies currently available on an industrial scale and fierce global competition.

A decisive and urgent change of course is needed to protect the chemical industry, which is at the heart of the entire industrial system. The package of emergency industrial policy measures for Europe should focus on three areas: reducing energy and carbon costs, supporting fair global trade, and promoting Made in Europe products through public procurement and EU-supported private procurement initiatives, with a particular focus on circular and low-carbon products.

CHEMICAL COMPETITIVENESS UNDER PRESSURE AND RISK OF SUPPLY CHAIN FRAGMENTATION

The Italian chemical industry – with total exports exceeding 40 billion euros – is highly integrated into world trade and, for many companies, foreign markets account for well over half of their sales.

In an international context marked by protectionism, a strong euro, overcapacity and cases of unfair competition, chemical exports fell by 1.2% in value in 2025, compared with a 2.5% increase in imports.

In the US – the fourth largest export market with growth of almost 60% over the previous five years – Italian chemical exports fell by more than 6% in 2025. With imports up 1.5%, Italy's trade surplus fell to €937 million from 1.2 euros billion the previous year.

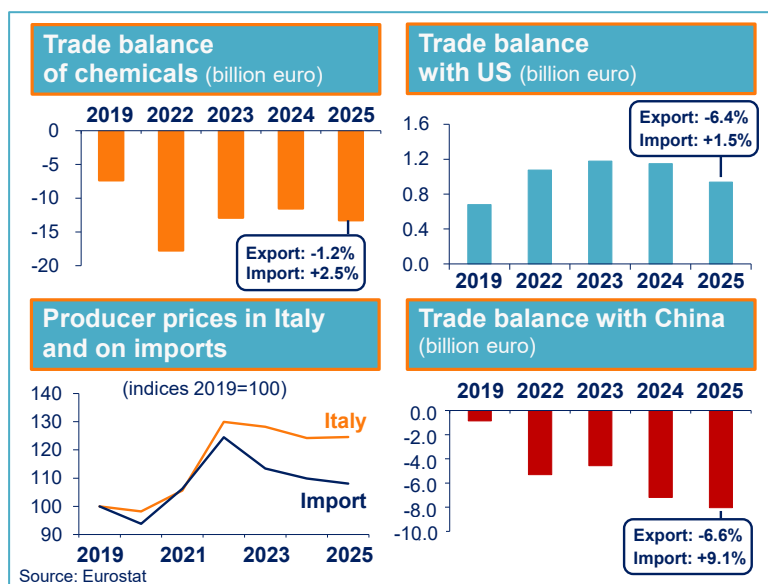
US tariffs have led to a reorientation of Chinese products towards the European market, exacerbating the already strong competitive pressure: in just one year, exports to China fell by more than 6%, while imports

increased by 9%. **The trade balance with China – close to equilibrium in 2019 – reached a deficit of 8 billion euros, and in 2025, the Asian giant established itself as the leading foreign supplier, overtaking Germany.** Germany's weakness is also evident in Italian exports, which fell by almost 2%, compared with signs of recovery in the French (+3%), Spanish (+6%) and Polish (+8%) markets.

As evidenced by the divergence between local producer prices and import prices since 2022, the competitiveness of the chemical industry in Italy is strongly influenced primarily by high energy and raw material costs.

The search for alternative markets and the promotion of new free trade agreements – such as those with Mercosur and India – is a strategy to be pursued, but it cannot be separated from adequate safeguards and a policy – Italian, but above all European – in favour of industrial competitiveness and more sustained local demand.

Given the alarming situation, trade defence measures should also be strengthened, considering the application of duties extended to the chemical supply chain if competitiveness is seriously compromised. Without a supply chain approach, duties simply risk shifting the problem to the next link in the value chain.



PRIORITY ACTION NEEDED ON THE MULTIPLE FACTORS PENALISING ENERGY COSTS

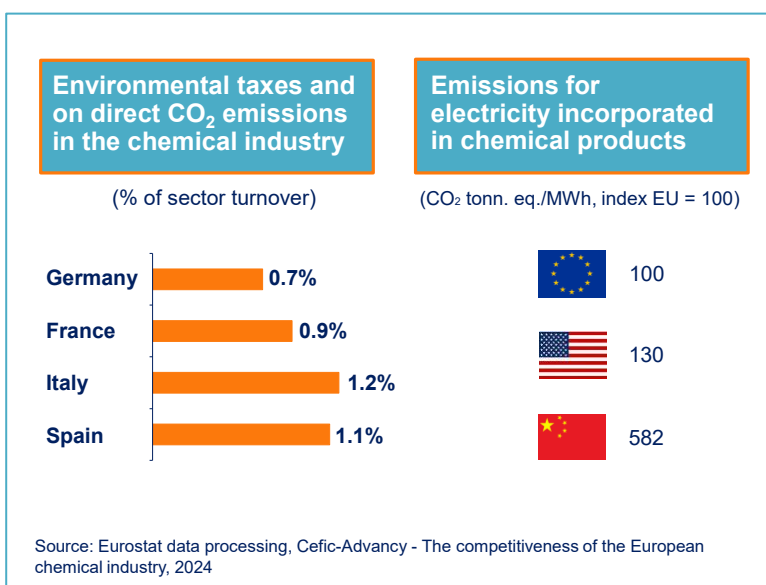
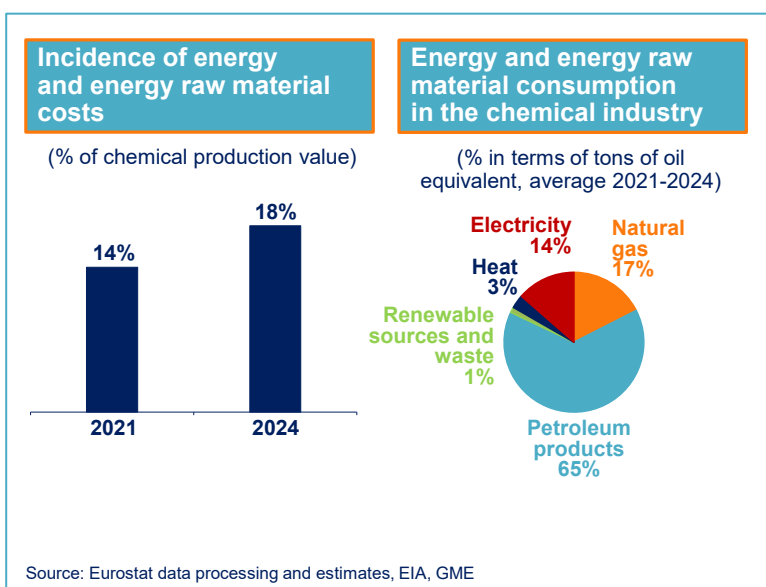
Thanks to continuous commitment and substantial investment, the chemical industry has been able to combine economic growth, high-quality employment and environmental protection. **Over the last thirty years in Italy, direct greenhouse gas emissions have been reduced by 70% and recycling has become the primary method of waste disposal.** Unrealistic European targets – in terms of implementation timelines and technologies that are not yet available or economically viable – risk compromising this virtuous balance.

The cost of energy continues to be the main factor penalising competitiveness in Italy, and the blockade of the Strait of Hormuz is a cause for great concern, as the chemical industry uses oil and natural gas both as energy sources and as raw materials. **Between 2021 and 2024, the incidence of energy costs on the value of chemical production rose from 14% to 18%** (with the same production and energy mix), with much higher peaks for fertilisers, basic chemicals and polymers.

While common sense associates energy with electricity, the latter accounts for just over a fifth of national energy consumption, while thermal energy (in Italy, mainly gas) accounts for about half of consumption. **In chemistry, natural gas has an even greater impact (17% of energy consumption) than electricity (14%)** and is often not easily replaceable.

In 2025, natural gas prices in Europe were more than triple those in the US, and there is a real risk of a further widening of the gap, also in light of low stocks at European level, with repercussions on the price of electricity.

With prices already high, energy costs are further burdened by European climate policies: at the beginning of the year, CO₂ emission permits stood at around 80 euros, with upward pressure dictated by the restrictions planned under the ETS legislation.



Overall, between direct and indirect costs for CO₂ emissions, the chemical industry pays over 600 million euros per year, a burden that does not weigh on non-European producers and is equivalent to the sector's entire R&D expenditure. In a 2030 scenario, the total cost could double, exceeding 1.5 billion euros. ETS and environmental taxation weigh more heavily on the chemical industry in Italy (1.2% of turnover) than in other major European manufacturing countries.

In such a critical context, serious consideration of **suspending the ETS system** and creating a true **single energy market** becomes even more urgent. In any case, it is essential to **review the heat benchmark**, which severely penalises the chemical sector, and to **maintain free allowances** to counter the risk of relocation to countries with less restrictive environmental regulations (carbon leakage). Suffice it to say that the emissions incorporated in Chinese chemical products, with reference to electricity alone, are more than five times those of Europe (source: Cefic-Advancy).

At national level, initiatives aimed at reducing energy costs are significant. Energy release – the already approved mechanism that allows energy-intensive users to consume electricity at competitive prices in exchange for the creation of new renewable electricity capacity – has become fully operational, and companies will be able to receive the benefit relating to the advance payment for 2025 as early as March.

Even more significant could be the impact on reducing energy costs for households and businesses (not only energy-intensive ones) of the Energy Bill Decree Law, if implemented in its entirety, starting in 2027. Of particular importance are the measures to **eliminate the gas price differential between the national exchange (PSV) and the North European exchange (TTF) and the compensation of the ETS cost on the formation of the price of energy from thermoelectric sources** (although this will likely require an assessment by the European Commission). **This compensation should also be extended to cogeneration** in order to avoid market penalties that could compromise investments in energy efficiency. It is also necessary to review the rules for compensating indirect ETS costs, which have penalised Italy since their inception, in order to bring them into line with other European countries.

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