



Clean Energy Transition: Chemicals

A barometer of sustainability change

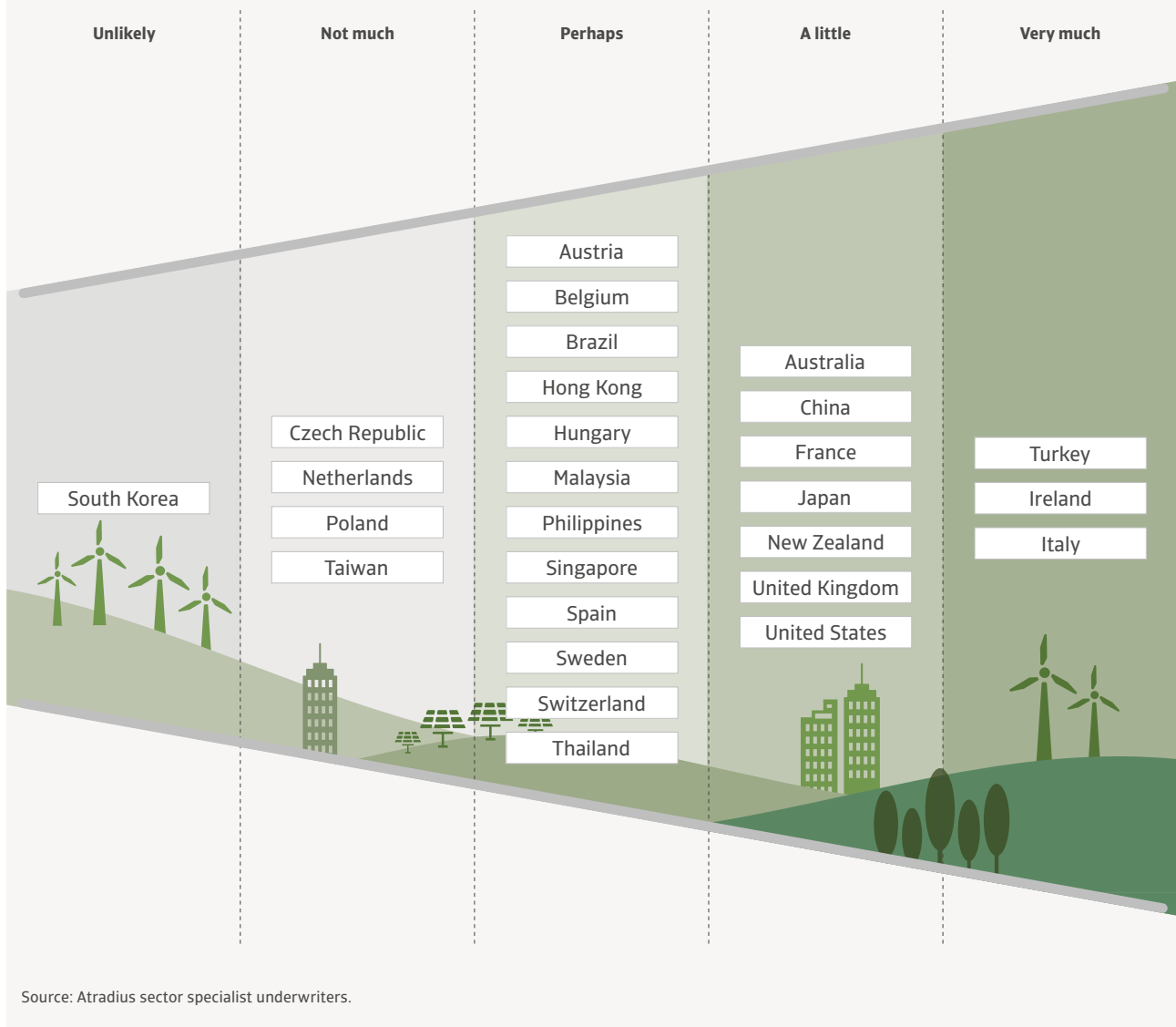
The chemicals industry presents an excellent barometer of how the demands of clean energy transition is affecting the chemicals industry itself, as well as the wide web of industries it is inextricably linked to. Chemicals producers consume significant amounts of fuel in energy intensive processes and as part of feedstocks. The transition to renewable energy and the adoption of cleaner or sustainable materials in feedstocks (such as finding alternatives to single-use plastics) will directly affect the industry and result in massive change to the way it operates.

What's more, chemicals services many different industries and sectors downstream. For example, the industry provides materials for electric vehicles (advanced plastics and silicon chips among others), agriculture (pesticides and fertilisers) and pharmaceuticals. Any changes or directives that impact these sectors will directly affect the chemicals industry too.

The next three years will be critical for the wider industry as it emerges from the high energy prices and economic downturn of the past year or so, while needing to invest in sustainability. More than 60 countries are implementing bans and levies on single-use plastics and many countries are including chemicals as part of their roadmaps for sustainability. For example, the EU's Chemicals Strategy for Sustainability is part of the bloc's European Green Deal. The US's Inflation Reduction Act includes grants and incentives to build green alternatives. But not all markets are equal and the requirements for compliance with sustainability legislation varies.



Can renewable energy solutions benefit the chemicals sector by raising incomes, customer demand and jobs during the next three years?



What do Atradius underwriters see as the primary issues for the sector in the region?

We spoke to Atradius underwriters located throughout the world and asked how the Chemicals industry was being impacted by the clean energy transition in their markets over the next three years. For example, governments are currently strengthening their climate action plans including the EU’s Corporate Sustainability Reporting Directive (CSRD) and the CHIPS, Science Act and Inflation Reduction Act in the US. For many businesses, legislation such as these drive opportunities for growth. This includes the growing need for chemicals for insulation materials, solar panels and materials for EVs. But what is the reality on the ground, can companies achieve compliance by 2026?

For our underwriters in Ireland, the answer was an emphatic yes. But elsewhere, they were less positive. Our colleagues in Austria, China, France, Malaysia, Netherlands, Switzerland and Turkey felt only partial compliance was possible, with Thailand and the Philippines suggesting their markets were not on

course at all. Interestingly, our underwriters in the Philippines acknowledged that local companies were unlikely to see consumer boycotts or blacklisting for non-compliance. They were also the only market in our survey that could not see collaboration for sustainable supply chains happening in the next three years.

Consumer demand for sustainable products is increasing, but this will not necessarily translate into new business for the industry in the short term. Our underwriters in Australia, China, New Zealand and Turkey believe there is significant opportunity for new prospects in their markets. However, our colleagues in Hungary, South Korea, Malaysia, Sweden and the USA were more pessimistic about growth prospects for consumer products, with the Philippines considering it unlikely. Our underwriters in Brazil, France, Ireland, Singapore and Hungary pointed out the opportunities presented by digital tools and AI, with our colleagues in Hungary additionally emphasising the potential benefits of green product labels or ratings.

Challenges: What are the most urgent challenges for the sector over the next three years?

1. Cost of transition

Investing in new technologies and clean energy involves high capital costs. This is currently even more challenging, especially for smaller businesses, due to the high borrowing costs and relative scarcity of finance amid the elevated operating costs caused by high fuel prices.

2. Regulation and compliance

As environmental regulations ramp up, many businesses will not be asking whether they can afford to transition to clean energy, but whether they can afford not to. Stricter environmental regulations mean chemicals businesses will face increasing regulatory scrutiny, with potential financial penalty or reputational damage for non-compliance.

3. Navigating global supply chains

The chemicals industry often trades with long supply chains, making it especially vulnerable to geopolitical disruptions (including tariffs and trade restrictions), as well as disparity of government legislation across different markets.

Opportunities: What are the greatest opportunities for the sector over the next three years?

1. Growing demand for sustainability

Consumer demand for safer, more sustainable products presents a huge opportunity. There is significant global demand for green products, renewable energy solutions and circular solutions for waste. As an energy-intensive industry, the chemical industry is highly susceptible to oil and gas price volatility and may benefit from cost-effective alternatives.

2. Digital transformation in R&D

Digital technologies such as AI are transforming R&D processes across the industry. This is helping in the discovery and development of new sustainable processes and products, the opening of new markets and improvements in areas such as energy efficiency and supply chain management.

3. Investment in advanced materials

Clean energy investment in the chemicals industry is creating growth opportunities, however this is not limited to the chemicals sector alone. Demand for advanced materials for downstream applications such as electric vehicles and solar photovoltaics also presents opportunities for the chemicals industry.

Where next?

Indications suggest that the global chemicals industry will enjoy a rebound towards the end of 2024, possibly in the region of 3.1%, driven largely by demand from emerging markets and Asia. Some growth will be boosted by easing inflation and lowering energy prices. However, clean energy transition, digitalisation, adopting circular processes and implementing sustainable solutions will require significant financial investment. Some businesses may be left behind as the industry transitions.



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