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Q3 2022 Covestro AG Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Covestro Earnings Call on the Q3 2022 results. The company is represented by CEO, Markus Steilemann; CFO, Thomas Toepfer; and Investor Relations, Ronald Koehler. (Operator Instructions)

I would now like to turn the conference over to Ronald Koehler. Please go ahead.

Ronald Koehler ***Covestro AG - Head of IR***

Welcome to our third quarter conference call. The quarterly report and the earnings call presentation are available on our web page, and I assume you have read the safe harbor statement.

And with that, I turn over to Markus.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Thank you, Ronald, and good afternoon. A warm welcome also from my side.

The turmoil of the energy and raw materials market in combination with weakening demand for our products has affected Covestro in the last quarter. Despite this, Covestro sales in the third quarter 2022 continue to be on the high level of EUR 4.6 billion. In this difficult environment, Covestro has reached an EBITDA of EUR 302 million, still in the targeted range of EUR 300 million to EUR 400 million. The free operating cash flow improved to EUR 33 million after 2 negative quarters.

With only one quarter in front of us, we have narrowed our full year guidance range. In parallel to this call, one of the most influential trade fairs in the plastics industry is slowly starting to wind down. We went out there to craft connections with our customers, suppliers and industry partners and to join forces with the challenges of a quickly changing world.

Let's turn to the next page. Let us now have a look into volume development. The global volume decreased by 5.7%, mainly driven by the demand weakness in the region, Europe, Middle East and Latin America. The region EMLA has seen significant decreases in almost all industries with only automotive breaking the trend but starting from a low base. Only a slightly decline in volume could be observed in the region, North America. Furniture and electro/electronics were down, but this was partly compensated by good development in auto and construction. In Asia Pacific, the volumes increased on the back of a stimulus program of the Chinese government for automotive and positive trends in construction.

Looking closer into the different industries, the negative trend in furniture/wood and electro is continuing in all regions. Both industries being affected by a post-COVID decline after a hike during the peak of the coronavirus pandemic. Electronics being hit mostly in Asia Pacific.

The picture is, however, mixed for the construction industry. Whilst volume in Asia Pacific and North America are increasing, the situation in EMEA was negatively affected by the raw material and energy price situation. The globally positive trend is the volume increase in the automotive industry. Here, the weakness of the electro/electronics industry might have had a significant impact on the availability of semiconductors, which was the main bottleneck in past quarters.

With this overview of our market environment, let us have a look at the global demand situation across all industries on the next page. If we look at the global demand picture, we can see the same trends that we have outlined in our sales volume overview on the previous slide. Revisiting the assumptions in the beginning of 2022, the global GDP has suffered from a dampening caused by the corona lockdown in China, the effect of the Russian invasion into Ukraine and the resulting energy crisis in Europe. We now expect the global GDP to be around 3%, with the second half of 2022, clearly below this trend. The forecast for 2022 demand growth in global automotive industry is still above 2021, but the anticipated strong recovery has until now not happened. Also, the positive signs from Q3 can improve the overall picture, but not compensate first half production losses, mainly caused by a shortage of semiconductors and the lockdown in China.

Our external data provider, LMC, is now expecting a 7% growth in automotive. The subsection on battery electric vehicles and electric vehicles, that is even more relevant for us, however, is still seeing a high growth rate.

The outlook on construction is now also less optimistic and is strongly influenced by the European raw material and energy price situation. Demand growth 2022 has fallen behind 2021 growth and is expected to be a little higher than 2%. As mentioned earlier, the extremely positive trend for furniture and electro in 2021 has now completely reversed and we see both industries significantly falling behind the expected growth rates. Furniture is definitely a low light with a negative growth expectation of around minus 1%. And for electro, we assume now a growth rate in the range of 1.5%.

With this overview of the global demand picture, I'm now handing over to Thomas who will guide you through the financials.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Well, thank you, Markus. And ladies and gentlemen, also from my side, a very warm welcome to our call.

I'm on page 5 of the presentation. And as you can see, our quarterly sales came in at EUR 4.6 billion, which is still the third highest quarterly sales number in the Covestro history and it's a continuation of our sales trend throughout 2022. You can also see in the bridge that our Q3 sales were up 7.3% year-on-year and that was pushed by a 5.4% price increases, and those price increases actually came from both segments. You have the details in the box on the right-hand side. And in addition to that, we had a positive FX effect, which contributed significantly with 7.6%, while on the other hand, we were facing a volume decline of minus 5.7%.

So with that, let's turn the page to Page 6, where you have the EBITDA bridge. And you can see that year-over-year, our EBITDA declined from EUR 862 million last year to EUR 302 million this year. And you can also see that the negative volume impact was roughly EUR 100 million.

Now the most important item, obviously, is the pricing delta in the middle. You can see that increasing raw material and energy prices impacted our EBITDA by a negative EUR 857 million, and they were only partially compensated by price increases of EUR 231 million, which is actually a 27% pass-on rate and that then led consequently to a negative pricing delta of EUR 626 million. I can tell you that the pricing power actually declined, of course, due to the lower demand in our core segments, especially in Europe, also because of the vacation season. But we did see improvement again towards the end of Q3. And here, we could also realize price increases, especially in the field of TDI in the European environment month-over-month, and I think that is a good sign.

Finally, you see in the bridge of the positive FX item of EUR 49 million, and you see positive EUR 115 million in the other items bucket. That includes EUR 202 million from lower provisions for variable compensation and against that, there are some cost increases, especially in the field of freight logistics and also some wage inflation.

So with that, let's turn to Page 7 and looking to the breakdown into our segments and start with Performance Materials. So as you can see on the upper half of the page, Q3 year-on-year sales growth was 6.6% despite sales volume decline of 6.2% year-on-year and the decline came from the reduced demand in our customer industries, particularly in Europe due to the energy crisis situation. On the other hand, we had a positive effect on price increases, and that was 5.2% year-on-year.

If you look at the EBITDA development on the lower side of the page, you can see both Q-on-Q and year-on-year were down and the impact comes from the negative pricing delta, particularly from the energy and raw material prices in Europe, which have so far peaked in Q3. And as I said, we could not compensate the price increases, but we managed some price increases month-over-month in September. As I said, that maybe took place in Europe, particularly in TDI.

So with that, I'd like to turn to Page 8, where you have the same set of numbers for our Solutions & Specialties segment. On the upper half, again, for the sales, you see that in Q3, there's a 6.1% sales growth year-on-year, and we benefited from our resilient pricing here. And on the lower side of the page, you can see that actually our EBITDA for the segment increased significantly in the third quarter, and that is both year-on-year and quarter-on-quarter. And that, of course, had a positive impact is the lower internal feedstock, which we charge at market prices, specifically for standard polycarbonate market and together with our resilient pricing for the end products, you can see that the segment actually posted a very resilient and positive results.

So with that, let us turn to Page 9, where you have the free operating cash flow development. You can see in the graph that after 9 months, we still stand at a negative EUR 412 million, but I would like to emphasize that in Q3, free operating cash flow turned positive with EUR 33 million, you have that in the first bullet on the right-hand side, and in addition to that, let me just pick a couple of items through the table below the chart. So first of all, you see that the impact from working capital is negative with EUR 571 million that corresponds to a working capital to sales ratio of 20.6%. And I would like to reiterate what I said earlier or what I said in earlier calls, that, of course, that with the increasing 12-months rolling sales plus also our initiative to optimize our working capital, the working capital to sales ratio should further decline until the year-end.

You also see in the table, our CapEx was EUR 543 million. I would like to emphasize that this is fully in line with our reduced guidance for the full year that now is EUR 900 million. I'll come to that a little later when we talk about the guidance.

You can see income tax payments of EUR 446 million. That is due to tax payments, which relates to our high result of last year, and secondly, it's also due to the unfavorable geographical mix. And lastly, we see under other effect, there's a negative EUR 507 million. That mainly relates to the bonus payment of EUR 475 million in 2022 for the successful year 2021.

So with that, let's go to Page 10 and have a look at the net debt situation and the balance sheet items. As you can see, our total net debt increased by EUR 552 million to EUR 3.152 billion at the end of September while the net financial debt increased by EUR 1.4 billion to then EUR 2.861 billion. And of course, the key items you can find them in the bridge. So first of all, the record dividend of EUR 3.40 that we paid after the resolution of the AGM and that translated into a EUR 653 million payout. Secondly, you see the share buyback. We repurchased shares of EUR 150 million between March and June, and that represent already a 30% execution of the share buyback, which we have announced.

And finally, you also see that there is a significant decrease in net pension liabilities by EUR 904 million. And non-surprisingly, this is driven by the increase in the pension discount rates both in Germany and in the United States, resulting in a EUR 291 million net pension liability. And again, if you want to decompose that to track it back to the balance sheet, that consists of pension provisions of EUR 420 million which are then partly offset by a net benefit asset of EUR 129 million. So if you look at that in relation to our EBITDA, the net debt-to-EBITDA ratio stands at 1.4x. And one thing, obviously, has not changed, and that is that Covestro is absolutely committed to a solid investment-grade rating.

So let's go to Page 11 and look at the outlook. So for 2022, with only 1 quarter to go, we have narrowed our EBITDA guidance to now between EUR 1.7 billion to EUR 1.8 billion, and that implies around EUR 50 million to EUR 150 million EBITDA in Q4. That means we do expect a rather weak Q4 due to the continued destocking by our customers and also additional idle costs as we also plan to reduce our own inventories by reducing the operating rate at our plants.

And now of course, for 2023, it is way too early for any guidance, particularly in this current very volatile environment. The only thing that I can give you is more of a technical statement. If you were to assume the September 2022 margins flat forward and we're then to apply that to 2023, then this would give you an EBITDA of roughly EUR 0.9 billion. You can see that we have indicated this as mark-to-market in the chart, but I would like to reiterate again, this is a purely technical assessment, it's not a guidance. So our long-term competitive position, our view, therefore, has not changed, and therefore, we remain the regional low-cost producer, and we also confirm our mid-cycle EBITDA, which we think sits at EUR 2.5 billion in 2022 and it should be rising to EUR 2.8 billion in 2024.

So let's look at the other KPIs on Page 12. In line with our narrowed EBITDA guidance for the full year, we have also accordingly narrowed the guidance for our free operating cash flow. We're now expecting between EUR 0 and EUR 100 million. We are expecting a ROCE above WACC, and we're now guiding between negative 2 to negative 1 percentage points. And for the greenhouse gas emissions, considering the lower production volumes, we're now guiding between 5.0 million and 5.4 million tons. And you have some further KPIs on the table. For example, the P&L effective tax rate. Normally here, we guide between 24% and 26% and that remain generally valid. However, for this year, we foresee around 26%, and that mainly stems from the current distribution of our earnings. And for CapEx, I already mentioned that we have reduced the guidance to around EUR 900 million, and that is, of course, the outcome of our agility assessment in light of the current situation around us.

So with that, I would like to hand it back to Markus.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Thanks a lot, Thomas.

And we're now continuing on Page #13. Coming now to a topic that occupies us almost daily: energy prices and the effect on Covestro as an energy-intensive company. The good news is that despite the peak of the energy price in August, and the still very nervous market, our full year energy bill is now expected to be EUR 2.1 billion, even slightly lower than previously assumed. However, this reduction is driven by the assumption of significantly lower production volumes in the fourth quarter and therefore, less kilowatt hours consumed.

In recent weeks, we have seen a downward gas price trend as storages were approaching the maximum and temperatures in Germany were seasonally unusually high. So there was an abundance of gas available. Taking the gas price of October 1 to October 18, flat forward, our energy bill would come out in the range of EUR 2.1 billion. Based on the most recent energy prices, we assume an energy bill of around EUR 600 million for the fourth quarter. Please note that the volatility is still extremely high. Having said this, a range of EUR 550 million to EUR 650 million is built into our guidance.

So let's turn to the next page. And here, I would like to come back to one of the recent events and fairs that we had. The world is facing unprecedented problems, the war, the global tensions, energy crisis and famine, but many things that go beyond the horizon of a few weeks and months are being overlooked. The triple crisis of long-term issues: climate change, resource depletion and environmental destruction allows no further blocking and requires a strong industry to master all the challenges the world are facing.

On the K fair in Düsseldorf Covestro is showcasing that plastics will play a dominant role in overcoming these challenges from the thermal insulations of buildings to enabling vehicles to run without fuel consumptions to the preservation of food stuff. When meeting our customers, we often feel their pains in finding real, circular product solutions as linear consumption comes to an end. Products need to come back and materials need to stay in the loop. So we intend to offer more products made from biomass and recycled plastics to our customers as they are looking for ways to reduce their Scope 3 emissions.

To make a choice for more sustainable products easier compared to fossil-based ones, we are creating a new Circular Intelligence, CQ label to demonstrate our competence in making products more sustainable. In line with this, we are developing innovative recycling technologies as Covestro's commitment to a circular economy and climate neutrality. We have also included this innovative process technologies in the CQ label as Evocycle CQ. One first example is a chemical recycling of mattresses to 100% re-use, making new mattresses foam.

To put this into place on an industrial scale collaboration, longer value chain is essential and Covestro is crafting these connections along the value chain to have an industrial process developed by the 2030s.

Achieving climate neutrality in production by 2035 is an ambitious target we've set ourselves. We do this to support our customers also in their target to reduce carbon dioxide emissions. We are continuously pushing in this direction by implementing energy saving measures in our plants and enlarging our base of power purchase agreements for renewable energy further.

To support our customers in their ambition to achieve their sustainability goals and reduce Scope 3 emissions, we want to offer all our products in a climate-neutral version by purchasing of alternative recycled raw materials but also mass-balanced and ISCC Plus certified raw materials. Additionally, we are investing in efficient recycling of polycarbonates. Our aim is to announce targets for the reduction of such Scope 3 emissions within the next year.

As you can see, we have ambitious plans for Covestro but the extremely positive and motivating discussions I personally had on the K fair with customers, suppliers and partners confirm that we are on the right track and will continue on that path.

So allow me on Page 15 to quickly summarize. We saw continuously high sales of EUR 4.6 billion in the third quarter 2022, which was driven by price increases despite lower volumes. The EBITDA came in within guidance range in the third quarter 2022 despite recessionary environment in high energy and raw material prices. We also achieved a positive free operating cash flow of EUR 33 million in the third quarter 2022, improving the first 9 months free operating cash flow now to negative EUR 412 million. The full year guidance was narrowed now to an EBITDA guidance within the range of EUR 1.7 billion to EUR 1.8 billion. And we continue with our ambitious sustainability as well as circularity vision as presented on the world's leading plastics fair, K 2022.

And for questions that remained open, Thomas, Ronald and myself are now here to answer them.

With that, I hand it back to Ronald.

Ronald Koehler ***Covestro AG - Head of IR***

Thank you very much.

So we are now open for your questions, and we will answer them in the order we receive them.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first one is Charlie Webb of Morgan Stanley.

Charles L. Webb ***Morgan Stanley, Research Division - Equity Analyst***

Maybe first, just on the mark-to-market. I know it's just an indication of how you're looking at next year, and it's just a point-in-time measure. But when you look at, obviously, end of September versus end of October, where do we find ourselves now, I guess quite a lot has changed in terms of energy prices, gas prices as well as some of your product prices in MDI and TDI in different regions, things have moved on. Is there any sense you can give us as indication what it is as of end of October just so we understand that? And also within that mark-to-market, just understanding the bonus provision assumption that we should be kind of thinking within that or not within that would be super helpful. So just some clarity there.

And then just one on CapEx looking into next year. Can you just help us understand the various building blocks, maintenance as well as some of the bigger growth projects within your kind of EUR 1 billion to EUR 1.1 billion that you have set out for next year in CapEx. Just wondering if there's any flexibility there given where we find ourselves in the cycle to perhaps reduce spend looking through next year as well.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Yes, this is Thomas. Let me try to help you a little bit. So, I would agree that the September mark-to-market probably is the low point. I would say if you were to push it into October, that number would go slightly up. It would only go slightly up because there is a 4-week delay before the reduced energy prices really hit our P&L. And therefore, I think the energy prices that you see today of whatever below EUR 100 per megawatt hour they will also only come in with some delays.

So, I would definitely say that the September number is, as far as we can see from today, a low point and things are moving up since then. And in addition to that, it does include, as you pointed out, also a bonus provision. So we've not assumed bonus to be zero but of around EUR 100 million to EUR 150 million. You can always ask the question whether it would be paid out or not because, you may know our bonus regime, if we don't earn the cost of capital, there is quite some flexibility to further reduce the bonus. And at EUR 0.9 billion, I think there's no discussion that cost of capital would not be earned. So I think those 2 data points may help you to go out where that stands. And as I said, in my view, it's a low point.

CapEx, you know that we have this maintenance CapEx of roughly EUR 400 million to EUR 450 million. And that means, of course, there are some other projects which are in the middle of the execution and they are very difficult to stop, for example the aniline plant in Antwerp. And there are some other major CapEx plans where I think stopping or delaying them would cause significant friction costs. But of course, there are some other things which would only be started or could be delayed. So I would definitely say that in the order of magnitude of a couple of hundred million, we do have some flexibility to manage CapEx and we are, of course, currently looking into that number as we prepare for 2023.

Charles L. Webb ***Morgan Stanley, Research Division - Equity Analyst***

That's really helpful. I'll squeeze one more in. Could you share what could be in terms of the MDI landscape in terms of supply and demand, a lot of your competitors talking about restructuring European MDI businesses and curtailing capacity. I presume chlorine and the energy price has been a bit of an issue there. But just understanding what you're seeing on the supply/demand side for MDI in Europe today.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Charlie, this is Markus speaking. Maybe from my side. We have learned at least from publicly available sources that, for example, Huntsman is discussing it. We also see that there is at current point in time, plenty of supply in Europe available. And we in this context try to raise prices, but there is some difficulty to put it mildly out there. So long story short, it remains to be seen where midterm, the energy prices are going because we have witnessed that in other industries for numerous reasons, take the polycarbonates, I mean the base polycarbonate industry a couple of years ago, where on very short notice, many competitors were out there and saying, I'm shutting down here, I'm shutting down there. And now we have similar, quite short term, drastic reactions with one or the other public statements.

And over time, when things are panning out, you saw that many of those announcements to shut down plants have either never been executed or have been executed at a significant delay. And when we thought where the plants will remain on stream, all of a sudden, they were closed. Just to name one example, the Singapore Teijin operations of polycarbonate. So long story short, the normalized view, when we are through this turmoil, it is pretty clear that the capacity of European production assets is needed and that there is also plenty of demand that will also in the future will be sourced from Europe. And one key reason for that are the disrupted supply chains which in the last 1.5 to 2 years have taught many market players a significant lesson.

So if we just oversimplify it and say, because of, for example, landed cost from Asia Pacific or the United States our European assets will be non-competitive I do not believe that this is the main reason. There's other reason, for example, the geopolitical turmoil, the overall development that we currently see with regard to, may I call it, new world order developing, that might also bring back a lot of assets into competitiveness again.

And let's not forget, we have a lot of regional nature of those supply chains. So long story short, no matter what you currently read and no matter how short term reactions are, I tend to say that some of those reactions are a little bit of an overreaction. And under normalized conditions, we will also see that European assets and particularly, MDI assets will be back on track and will be also sought after by European customers of MDI.

Operator

Next we have Mr. Christian Faitz of Kepler Cheuvreux.

Christian Faitz ***Kepler Cheuvreux, Research Division - Equity Analyst***

A couple of questions, please. First of all, speaking of MDI, Markus, would there any update on the decision for your MDI project in Texas or China? Because I believe you wanted to communicate that during Q4?

Second question, I understand the mark-to-market on the cost side. But would you mind sharing your volume assumptions/potential recession assumptions for your mark-to-market EUR 900 million EBITDA for 2023.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes, Christian, good to hear again. And still remembering your visit on K fair last week, much appreciated. Christian, on MDI, the short answer would be no update these days because as we announced already in earlier interaction opportunities, we are still thoroughly investigating that investment and we will come up with a decision in the fourth quarter, but not today, not now. So please bear with me that here, we still take some time to really take a detailed, thorough assessment of the overall situation, of the overall investment and also of the overall framework conditions.

On the mark-to-market, the assumptions we have taken, and Thomas alluded to that: the September margins flat forward times the planned volumes flat forward as an assumption for 2023 and also then the planned costs that we take into consideration in the first attempt for 2023. So, this is how we came to the mark-to-market based on September margins. So, with particular regard to your volume assumptions, we assume that volumes will be relatively flat compared to the 2022 expected volumes.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

This is Thomas. Just if you want to play around with that assumption be aware that the volume sensitivity, of course, is much lower in 2023 than in a normal year. The numbers we usually state are that there is some EUR 60 million to EUR 70 million. I think for next year, I would rather expect a volume sensitivity between EUR 20 million to EUR 30 million per 1 percentage point of growth. And therefore, I think that's also important to keep in mind if you want to play around with that assumption.

Operator

Next question is Mr. Jaideep Pandya of On Field Research.

Jaideep Mukesh Pandya ***On Field Investment Research LLP - Analyst***

Yes. The first question is really around your energy and gas bill. So you've given us the volume number for usage of last year because you're running such lower utilization in MDI and TDI has been off-line. What is the actual energy usage for 2022? And then if you were to just use spot prices for 2022, current prices are there, what sort of would be the energy bill for next year? That's my first question.

The second question is really around what you see with regards to the polyurethanes landscape in Europe. I mean, at what point do you think that the customers are going to panic because in TDI, we have seen a very sharp reaction with regards to prices in China, but we haven't seen that with MDI. So what explains in your opinion, this difference in reaction?

And then the final question really is just around polycarbonate. Do you see energy prices as well as raw material unavailability or availability, having an impact on polycarbonate supply chain also in Europe because there have been a couple of announcements here and there? So what do you see with regards to polycarbonate spreads and profitability?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Okay. Jaideep, this is Markus speaking. So let me just start with the last question on the European polycarbonate situation. And let me also put it into context about some of the other questions that you have asked.

If you compare our 3 large volume products in the portfolio, TDI, MDI as well as polycarbonates and if you put the overall energy demand of the products for TDI at 100 so to say, Polycarbonate only consumes about 1/3 because the energy intensity is much lower compared to TDI. And MDI is somewhere in the middle. Just to give you an idea which product group is hit the most by the current overall energy bill increases and gas price increases.

What does that mean? We have seen still some temporary closures of some European assets in polycarbonates. The main reason is that there are numerous technologies out there and some technologies are simply no longer cost competitive despite the fact that they are not so much energy consumptive like, for example, TDI. We feel in this context very well positioned with our polycarbonate plants given size, economy of scale as well as the opportunity, therefore, to continue to produce also in very challenging conditions.

So that's why we also did not face any raw material availability issues with regards to what we need to produce polycarbonate, but also as we produce quite a bit for captive use in our own further compounding planned for our engineered plastics businesses. We also did not face any raw material shortages in that regard. There have been smaller shortages with regard to some additives. For that we could so far always find second or third supplier options and did not have significant loss of business due to some of those smaller additives. So that is hopefully a quite comprehensive picture about how we look at the polycarbonate situation.

Let's talk a little bit on question number 2. And here is a significant difference in terms of asset size and individual plant size compared to total market size. So TDI in Europe is down. In that sense, 2 major production sites are down with 600,000 tons. And those 600,000 tons are just represented by 2 major world-scale plants, one in Ludwigshafen, one in Dormagen, that is our plant. And this is 600,000 tons out of 700,000 that means, like-for-like, you have taken out more than 80% of European production capacity.

Having this in mind, even demand was significantly down for TDI. 85% of supply shortage after a couple of weeks has led to the situation that you can currently observe, that customers are simply saying, wait a moment, I need TDI. I have lived out of my inventories and lived through my inventories. And now I need to buy and all of a sudden they're recognizing that 85% of capacity is out in Europe. And at the same time, you see that there have been lots of export from Asia Pacific arrived in Europe, but also here, there is due to logistics reasons and other reasons, also capacity constraints in Asia Pacific and the U.S. because we're talking about global capacity in total, there's simply not sufficient TDI. And that all of a sudden then as usual with such a highly volatile product has led to this significant reaction of our customers.

For MDI and now comparing to TDI, the situation is different because we maybe see around 5% to 10% of curtailments only. That is given the market size compared to total plant size, plus a little bit more flexibility on how you steer an MDI plant. That means you could much more adjust in more smaller doses to the market demand as well as to potential supply issues. And that is why you have not yet seen similar strong reactions of TDI compared to MDI. So that's from polycarbonate, MDI, TDI: And for the energy topic if you don't mind I would like to hand back to Thomas.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Jaideep, this is Thomas. So I hope that I got your question correctly because there was a little bit of a background noise in the line. So I would say, if you assume volumes going up or down, you can essentially assume that our energy consumption goes up and down with the same percentage unless you would assume that the product mix changes, Markus has just alluded that TDI has a much higher energy intensity. But if you were to take the same mix, essentially it is very proportionate. And second, your question was what would be the energy cost with the prices as of today? I can only give you a rough indication, if you look at Page 13 of the presentation, we will be somewhere between the EUR 623 million per quarter that we had in Q3 and the EUR 450 million that we had in Q2. So let's give or take, it will be a EUR 300 million saving per year relative to where we stand in 2022 with the same amount of volume. So I think as a rough indication, this would be the number that I can give you.

Jaideep Mukesh Pandya ***On Field Investment Research LLP - Analyst***

Sorry, just to clarify, this would be as of the current like as of the current EUR 100 gas price or sub-EUR 100 gas price? Or this is still that you're working with the first 2 weeks in October assumption that you have?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes. I mean the EUR 100 is now the price for Europe. Yes, it's probably true that in Q2, we also had prices, which were only slightly higher than the EUR 100. So I think you're not far off if you take the average between the 2 quarters, Jaideep.

Operator

The next questioner is Mr. Markus Mayer of Baader Bank.

Markus Mayer ***Baader-Helvea Equity Research - Lead Analyst of Chemicals***

I have 3 questions of that as well. Maybe sticking to the energy topic. Maybe you can shed some light, what do you think about the German gas price cap. How much this could help you? And also, if you think that taking this positive effect from this measurement would force you to change the dividend policy? That would be my first question.

And then coming back to your announcement where the world scale MDI project might be. Is there also a third option that you might further delay the project? That would be my second question.

And then lastly, on this EUR 100 million CapEx guidance for this year. Just to clarify, has this the spendings just delayed into next year or has been there a cut-off CapEx project.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

So Markus, this is Markus speaking. Thanks for your question. Maybe let me start with the gas price cap and the related question on dividends. We currently only have a suggestion by the so-called German gas price commission on the table. That means we have not yet seen any legislation that would indicate any details about how this gas price cap would in the end of the day being offered to companies. So the unfortunate bit in that context is that we do not know whether the gas price cap will be applied as intended. Secondly, the gas price commission in itself has not indicated anything with regard to potential bonus or dividend caps. And thirdly, it is also not particularly clear what the gas price is against which we have to measure those potential benefits. As the gas price, we just discussed it based on Jaideep's question quite a bit. We simply don't know what the gas price will be. So long story short, it is a huge challenge to give you any indication about how that will work out for the company and what potential benefit that would mean. And with that, also with regard to potential impact on dividend, honestly speaking, we don't know to be very clear, particularly as we have seen in other context around potential support measures by the German government that the respective additional interpretation of the respective governmental supporting organizations, for example the BaFa have an own interpretation of the respective legislation and put that forward. So honestly speaking, for us, it is impossible today to give any statements about how that would potentially look like, based on all the reasons I have provided, and if that, at all, would impact our dividend policy. But maybe Thomas later can allude to that.

I will continue with MDI500. The base case is that we will build it. However, given the current circumstances, I believe that there's also an opportunity to postpone it. And yes, we are still, as I said earlier to a similar question, we are still assessing the situation very carefully and very thoroughly to make the right decision here in this context.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Well, I think on CapEx, it's a very simple answer. Roughly 50% of the EUR 100 million is a cut and the other 50% is a postponement. But that does not mean that necessarily 2023 will go up. You can imagine that the earlier you look at the CapEx plan for a year, the more optionality you have then also. And therefore, I think, nevertheless, what I said earlier for 2023 still applies with respect to our flexibility.

Operator

And the next questioner is Chetan Udeshi of JPMorgan.

Chetan Udeshi ***JPMorgan Chase & Co, Research Division - Research Analyst***

Yes. Thanks. I was just coming back to the mark-to-market number, and thanks for providing it. I'm just curious, why did you decide to give us like 2023 mark-to-market, so early,so far before we actually talk about 2023 outlook, which will be more in February. Are you trying to sort of steer off to that sort of numbers, closer to EUR 1 billion rather than EUR 1.6 billion? I think I'm just curious why talk about 2023 so far ahead of time, let's put it this way.

And second question, Markus, it's more related to your point on TDI, big capacity curtailment. What's stopping that on the MDI side you think? Is it more the fact that there are more players? So maybe the market is not as, let's say, consolidated in nature, and hence, you don't see the same sort of response so far on the MDI side because though MDI might be faring better than TDI, it doesn't feel like any of the European MDI producers are really earning cost of capital at least not in Q3 based on the high energy costs.

And last question is, can you confirm between Europe as a whole, did Covestro had a break-even EBITDA in Q3? Or was this below breakeven?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

So Chetan, let me start with your first question, the mark-to-market. You know what, there was no particular thought behind it or any guidance or anything if we wanted to scare somebody away, it's just that I think it's a good tradition that we have that in Q3 as a technical indication, we give you the mark-to-market for the following year because mark-to-market for the current year for the last 2.5 months would not make a lot of sense. And therefore, I think there was no particular thought behind it other than we've always done it and people gave us the feedback that they find it helpful.

Of course, it does show that the consensus for 2023 still has, I would say, some ambition, which we think can be achieved if the economy is turning. But of course, that the assumption must be that you cannot put four crisis quarters in a row and then achieve the current consensus. So I think it just gives you a little bit of guide rail to judge what has to happen in order to give you the 2023 result. I think that's all.

Maybe I take the EBITDA question. Q3 EBITDA for Europe, I think not surprisingly, was not break-even. We were loss-making with respect to our EBITDA numbers in Europe.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Chetan, this is Markus. Thanks for your question. And as you addressed it as a kind of a follow-up to my previous statement. The numerous factors for TDI being different. We have a similar consolidated market structure in terms of the suppliers. That's not too much different from MDI, but what is particularly different has 2 reasons. Number 1 is TDI, I have alluded to, is much higher energy intensive than MDI. And number 2 is: the respective TDI players have much fewer plants in total, and each plant is representing a much higher share of the total market.

And those 2 factors together, that means the high energy consumption as well as the even higher concentration within an anyhow consolidated market has a much stronger impact with one plant. So to say, it's not an operation between 8% and 10%, assuming a world-scale plant between 8% and 10% of the global market, is out. So and that's when those 2 plants that were out in Europe represented 80% to 85% of the European market and almost 20% of the global market. And you cannot just easily restart it because it needs to run at around 50% plus output rate.

So you don't have the decision like an MDI more or less with the overall number of plants being out there that an individual competitor can say, okay, we run on 1 line or 2 lines or 3 lines. And in that particular context, therefore, not so many plants have been taken out of capacity. And at the same time, you have much higher flexibility to steer and being therefore also a little bit closer to market demand. So it's not a jumping of capacity in or out, but lot more gradual adjustment.

And last but not least, I think what is important, the TDI plant of us in Dormagen in Germany was out not due to cost reasons in the first place, but due to force majeure in the upstream value chain for chlorine production because the chlorine production was out due to a technical issue. And that technical issue has led to a TDI plant shutdown. So that's the situation.

Operator

Next question comes from Mr. Thomas Swoboda of Societe Generale.

Thomas Swoboda ***Societe Generale Cross Asset Research - Research Analyst***

I have 2 quick questions. Firstly, on idle costs. Could you share with us what were the idle costs in Q3? And you were talking about additional idle costs in Q4. Could you put that into relation, please? And the second question is on benzene. I mean I remember on the last quarterly call, we -- there was a lot of talk on the (technical difficulty)

Operator

Mr. Swoboda, unfortunately, has dropped out of the line. (Operator Instructions)

So I believe I will continue with the next questioner. (Operator Instructions) The first one is Charlie Webb of Morgan Stanley.

Charles L. Webb ***Morgan Stanley, Research Division - Equity Analyst***

Maybe first, just on the mark-to-market. I know it's just an indication of how you're looking at next year, and it's just a point-in-time measure. But when you look at, obviously, end of September versus end of October, where we find ourselves now, I guess quite a lot has changed in terms of energy prices, gas prices as well as some of your product prices in NBI and TDI in different regions, things have moved on. Is there any sense you can give us an indication what it is as of end of October just so we understand that? And also within that mark-to-market, just understanding the I guess, bonus provision assumption that we should be kind of thinking within that or not within that would be super helpful. So just some clarity there.

And then just one on CapEx looking into next year. Can you just help us understand the various building blocks, maintenance as well as some of the bigger growth projects within your kind of EUR 1 billion to EUR 1.1 billion that you have set out for next year in CapEx. Just wondering if there's any flexibility there given where we find ourselves in the cycle to perhaps reduce spend looking through next year as well.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Yes. Sorry, this is Thomas. Yes, I mean, let me try to help you a little bit. So I would agree that the September mark-to-market probably is the low point. I would say if you were to push it into October, that number would go slightly up. It would only go slightly up because there is a 4-week delay before the reduced energy prices really hit our P&L. And therefore, I think the energy prices that you see today of whatever below EUR 100 per megawatt hour they will also only come in with some delays.

So I would definitely say that the September number is as far as we can see from today, a low point and things are moving up since then. And in addition to that, it does increase. It does include, as you pointed out, also a bonus provision. So we've not assumed bonus to be (inaudible) of around EUR 100 million to EUR 150 million. You can always ask the question whether it would be paid out or not because you may know our bonus regime, if we don't earn the cost of capital, there is quite some flexibility to further reduce the bonus and at [EUR 0.9 billion], I think there's no discussion that cost of capital would not be earned. So I think those 2 data points may help you to go out where that stands. And as I said, in my view, it's a low point.

CapEx, you know that we have this maintenance CapEx of roughly EUR 400 million to EUR 450 million. And that means, of course, there is some other projects which are in the middle of the execution, and they are very difficult to stop. For example, the aniline plant in Antwerp and there are some other major CapEx plans where I think stopping or delaying them would cause significant friction costs. But of course, there is some other things which would only be started or could be delayed. So I would definitely say that in the order of magnitude of a couple of hundred million, we do have some flexibility to manage CapEx and we are, of course, currently looking into that number as we prepare for 2023.

Charles L. Webb ***Morgan Stanley, Research Division - Equity Analyst***

That's really helpful. That's really helpful. I'll squeeze one more in. Could you share what could be in terms of the MDI landscape in terms of supply and demand, a lot of your competitors talking about restructuring European MDI businesses and [containing] capacity. I presume chlorine and the energy price has been a bit of an issue there. But just understanding what you're seeing on the supply/demand side for MDI in Europe today.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Charlie, this is Markus speaking. Maybe from my side, we have learned at least from, let's say, publicly available sources that, for example, Huntsman is discussing it. We also see that there is at current point in time, plenty of supply in Europe available. And we, in this context, try to raise prices, but there is some if not some difficulty to put it mildly out there. So long story short, it remains to be seen where midterm, the energy prices are going because we have witnessed that in other industries for numerous reasons, take the polycarbonates, I mean the base polycarbonate industry a couple of years ago, where, let's say, on very short notice, many competitors were out there and saying, I'm shutting down here, I'm shutting down there. And now we have similar, let's say, quite short term, let's say, drastic reactions with one or the other public statements.

And over time, when things are panning out, you saw that many of those announcement to shut down plants have either never been executed or have been executed at a significant delay. And when we thought where the plants will remain on stream, all of a sudden, they were closed. Just to name one example, the Singapore (inaudible) operations of polycarbonate. So long story short, the normalized view, let's say, when we are through this turmoil, it is pretty clear that the capacity of European production assets is needed and that there is also plenty of demand that will be also in the future being sourced from Europe. And one key reason for that is the, let's say, disrupted supply chains which in the last 1.5 to 2 years have taught many market players a significant lesson.

So if we just oversimplify it and say, well, because of, for example, landed cost from Asia Pacific or the United States or European assets will be in competitive. I do not believe that this is, let's say, the main reason. There's other reasons, for example, the geopolitical turmoil, the overall development that we currently see with regard to, may I call it, new world order developing that might also bring back a lot of assets into competitiveness again.

And let's not forget, we have a lot of, let's say, regional nature of those supply chains. So long story short, no matter what you currently read and no matter, let's say, how short term the reactions are, I tempt to say that some of those reactions are a little bit of an overreaction. And under normalized conditions, we will also see that European assets and particularly, MDI assets will be back on track and will be also sought after by European customers of MDI.

Operator

Next we have Mr. Christian Faitz of Kepler Cheuvreux.

Christian Faitz ***Kepler Cheuvreux, Research Division - Equity Analyst***

A couple of questions, please. First of all, speaking of MDI, Markus, would there any update on the decision for your MDI project in Texas or China? Because I believe you wanted to communicate that during Q4?

Second question, I understand the mark-to-market on the cost side. But would you mind sharing your volume assumptions (inaudible) potential recession assumptions for your mark-to-market EUR 900 million EBITDA for 2023.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes, Christian, good to hear again. And still remember, let's say your visit on [K fair] last week, much appreciated. Christian, on MDI, the short answer would be no update these days because as we announced already in earlier, let's say, interaction opportunities. We are still thoroughly investigating, let's say, that investment, and we will come up with a decision in the fourth quarter, but not today, not now.

So please bear with me that here, we still take some time to really take a detailed, thorough assessment of the overall situation of the overall, let's say, investment and also of the overall, let's say, framework conditions.

On the mark-to-market, the assumptions we have taken, and Thomas alluded to that, the September margins flat forward [times] the planned volumes flat forward as an assumption for 2023 and also then the planned costs that we take into consideration in the first attempt for 2023. So this is how we came to the mark-to-market based on September margins. So with particular regard to your volume assumptions, we assume that volumes will be relatively flat compared to the 2022 expected volumes.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

This is Thomas. Just if you want to play around with that assumption be aware that the volume sensitivity, of course, is much lower in 2023 than in a normal year. The numbers we usually state that there is some EUR 60 million to EUR 70 million. I think for next year, I would rather expect a volume sensitivity between EUR 20 million to EUR 30 million per 1 percentage point of growth. And therefore, I think that's also important to keep in mind if you want to play around with that assumption.

Charles L. Webb ***Morgan Stanley, Research Division - Equity Analyst***

Okay. Very helpful. And it was indeed fun visiting (inaudible), Markus.

Operator

Next question is Mr. Jaideep Pandya of On Field Research.

Jaideep Mukesh Pandya ***On Field Investment Research LLP - Analyst***

Yes. The first question is really around your energy and gas bill. So you've given us the volume number for usage of last year because you're running such lower utilization in MDI, and TDI has been off-line. What is the actual energy usage for 2022? And then if you were to just use spot prices for 2022, current prices are the -- what sort of would be the energy bill for next year? That's my first question.

The second question is really around what you see with regards to the Polyurethanes landscape in Europe. I mean, at what point do you think that the customers are going to panic because in TDI, we have seen a very sharp reaction with (inaudible) surprises in China, but we haven't seen that with MDI. So what explains in your opinion, this difference in reaction?

And then the final question really is just around polycarbonate. Do you see energy prices as well as raw material unavailability or availability, having an impact on polycarbonate supply chain also in Europe because there have been a couple of announcements here and there? So what do you see with regards to polycarbonate spreads and profitability?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Okay. Jaideep, this is Markus speaking. So let me just start with the last question maybe on the European polycarbonate situation. And let me also put it into context about, let's say, some of the other questions that you have asked.

If you compare our 3 large volume products in the portfolio, TDI, MDI as well as polycarbonates. And if you put the overall energy demand of the products for TDI at 100 so to say. Polycarbonate only consumes about, let's say, 1/3 because the energy intensity is much lower compared to TDI. And MDI is somewhere in the middle.

Just to give you an idea which product group is hit the most by the current overall, let's say, energy bill increases and gas price increases. What does that mean? We have seen still some temporary closures of some European assets in polycarbonates. The main reason is that there's numerous technologies out there and some technologies are simply no longer cost competitive despite the fact that there are not so much energy [consumptions] like, for example, TDI. We feel in this context, very well positioned with our polycarbonate plants given size, economy of scale as well as the opportunity, therefore, to, let's say, continue to produce also in a very challenging conditions.

So that's why -- we also did not face any, let's say, raw material availability issues with regards to what we need to produce polycarbonate, but also as we produce quite a bit for captive use in our own, let's say further compounding, let's say, planned for our engineered plastics businesses. We also did not face any raw material shortages in that regard. There have been smaller, let's say, shortages with regard to some additives that we could so far always find second or third supplier options and did not, let's say, have significant, let's say, loss of business due to some of those smaller additives. So that is hopefully quite comprehensive picture about how we look at the polycarbonate situation.

(inaudible), let's talk a little bit on question number 2. And here is a significant difference in terms of asset size and individual plant size compared to total market size. So TDI in Europe is down. In that sense, 2 major production sites are down with 600,000 tons. And those 600,000 tons is just represented by 2 major world-scale plants, one in Ludwigshafen, 1, let's say, in Dormagen, that is our plant. And this is 600,000 tons out of 700,000 that means, like-for-like, you have taken out more than 80% of European production capacity.

Having this in mind, even demand was significantly down for TDI, 85% of, let's say, supply shortage after a couple of weeks has led to the situation that you can currently observe that customers simply saying, wait a moment, I need TDI. I have [lift] out of my inventories and looked through my inventories. And now I need to buy (inaudible) sudden recognizing that 85% of capacity is out in Europe. And at the same time, you see that there have been lots of export from Asia Pacific arrive in Europe, but also here, there is due to logistics reasons and other reasons, and also capacity restraints in -- constraints in Asia Pacific and the U.S. because we're talking about global capacity in total, simply not sufficient TDI. And that all of a sudden then as usual with such a, let's say, highly volatile product has led to this significant reaction of our customers.

For MDI and now comparing to TDI, the situation is different because we maybe see around 5% to 10% of curtailments only. That is given the market size compared to total plant size, plus a little bit more flexibility on how you steer an MDI plant. That means you could much more adjust in more, let's say, smaller doses to the market demand as well as to potential supply issues. And that is why you have not yet seen similar strong reactions of TDI compared to MDI. So that's, let's say, from polycarbonate, MDI, TDI and for the energy topic.

If you don't mind, I would like to hand back to Thomas.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Jaideep, this is Thomas. So I hope that I got your question correctly because there was a little bit of a background noise in the line. So I would say, if you assume volumes going up or down, you can essentially assume that our energy consumption goes up and down with the same percentage unless you would assume that the product mix changes, Markus has just alluded that TDI has a much higher energy intensity. But if you were to take the same mix, essentially is very proportionate. And second, your question was what would be the energy cost with the prices as of today? I can only give you a rough indication, if you look at Page 13 of the presentation, we will be somewhere between the EUR 623 million per quarter that we had in Q3 and the EUR 450 million that we had in Q2. So let's give or take, it will be a EUR 300 million saving per year relative to where we stand in 2022 with the same amount of volume. So I think as a rough indication, this would be the number that I can give you.

Jaideep Mukesh Pandya ***On Field Investment Research LLP - Analyst***

Sorry, just to clarify, this would be as of the current like as of the current (inaudible) so EUR 100 gas price or sub-EUR 100 gas price? Or this is still you're working with the first 2 weeks in October assumption that you have?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes. I mean, it's probably -- I mean, the EUR 100 is now the price for Europe. Yes, it's probably true that in Q2, we also had prices, which were only slightly higher than the EUR 100. So I think you're not far off if you take the average between the 2 quarters, Jaideep.

Operator

The next questioner is Mr. Markus Mayer of Baader Bank.

Markus Mayer ***Baader-Helvea Equity Research - Lead Analyst of Chemicals***

I have 3 questions of that as well. Maybe sticking to the energy topic. Maybe you can shed some light, what do you think about the (inaudible). How much this could help you? And also, if you think that taking this positive effect from this measurement would force you to change the dividend policy? That would be my first question.

And then coming back to your -- the (inaudible) the world (inaudible) project might be. Is there also a third option that you might further delay the project? That would be my second question.

And then lastly, on this EUR 100 million CapEx guidance for this year. Just to clarify, as this -- has the spelling, we just delayed into next year or has been there a cut-off CapEx project.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

So Markus, this is Markus speaking. Thanks for your question. Maybe let me start, let's say, with the gas price cap and the related question on dividends. We currently only have a suggestion by the so-called German gas price commission on the table. That means we have not yet seen any legislation that would indicate any details about how this gas price cap would, in the end of the day being offered to companies. So the unfortunate bit in that context is that we do not know whether the gas price cap will be applied as intended.

Secondly, the gas price commission in itself has not indicated anything with regard to potential bonus or dividend caps. And thirdly, it is also, let's say, not particularly clear, therefore, what the gas price is against which we have to measure those potential benefits. As the gas price, we just discussed it based on Jaideep's question -- Jaideep's question quite a bit. We simply don't know what the gas price will be. So long story short, it is a huge challenge to give you any indication about how that will work out for the company and what potential benefit that would mean.

And with that also with regard to potential impact on dividend, honestly speaking, we don't know to be very clear, particularly as we have seen in other context and potential, let's say, support measures by the German government that the respective additional interpretation of the respective governmental supporting organizations, for example, (inaudible) have an own interpretation of the respective legislation and put that forward. So honestly speaking, for us, it is impossible today to give any statements about how that would potentially look like based on all the reasons I have provided, and if that, at all, would impact our dividend policy. But maybe Thomas later can allude to that. I will continue, let's say, with MBI [EUR 500 million]. The base case is that we will build it. However, given the current circumstances, I believe that there's also an opportunity to postpone it. And yes, we are still, as I said earlier, to a similar question, we are still assessing the situation very carefully and very thoroughly to make the right, let's say, decision here in this context.

On CapEx -- okay, sorry, Thomas, you take over the -- on CapEx, Okay.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Well, I think on CapEx, it's a very simple answer. [About 50%] of the EUR 100 million is a cut and the other 50% is a postponement. But that does not mean that necessarily 2023 will go up. You can imagine that the earlier you look at the CapEx plan for a year, to more optionality you have done also. And therefore, I think, nevertheless, what I said earlier for 2023 still applies with respect to our flexibility.

Operator

And the next questioner is Chetan Udeshi of JPMorgan.

Chetan Udeshi ***JPMorgan Chase & Co, Research Division - Research Analyst***

Yes. Thanks. I was just coming back to the mark-to-market number, and thanks for providing it. I'm just curious, why did you decide to give us like 2023 mark-to-market, so early in the -- let's say, so far before we actually talk about 2023 outlook, which will be more in February. Are you trying to sort of steer off to that sort of numbers, closer to EUR 1 billion rather than EUR 1.6 billion? I think I'm just curious why talk about 2023 so far ahead of time, let's put it this way.

And second question, Markus, it's more related to your point on TDI, big capacity curtailment. What's stopping that on the MDI side you think? Is it more the fact that there are more players? So maybe the market is not as, let's say, consolidated in nature, and hence, you don't see the same sort of response so far on the MDI side because though MDI might be steering better than TDI, it doesn't feel like any of the European MDI producers are really earning cost of capital at least not in Q3 based on the high energy costs.

And last question is, can you confirm between Europe as a whole, did Covestro had breakeven EBITDA in Q3? Or was this below breakeven?

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So Chetan, let me start with your first question, the mark-to-market. You know what, there was no particular thought behind it or any guidance or anything if we wanted to scare somebody away, it's just that I think it's a good tradition that we have that in Q3 as a technical indication, we give you the mark-to-market for the following year because mark-to-market for the current year for the last, let's say, 2.5 months would not make a lot of sense. And therefore, I think there was no particular thought behind it other than we've always done it and people gave us the feedback that they find it helpful.

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And then, okay, maybe actually we have an EBITDA question. Q3 EBITDA for Europe, I think not surprisingly, was not breakeven. We were loss-making with respect to our EBITDA numbers in Europe.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Chetan, this is Markus. Thanks for your question. And as you (inaudible) addressed it as a kind of a follow-up to my previous statement. The numerous factors for TDI being different. We have a similar, let's say, consolidated market structure in terms of the suppliers. That's not too much different from MDI, but what is particularly different is 2 reasons. Number 1 is TDI, I have alluded to is much higher energy intensive than MDI. And number 2 is the respective TDI players have much fewer plants in total, and each plant is representing a much higher share of the total market.

And those 2 factors together, that means the high energy consumption as well as the even higher concentration within an anyhow consolidated market has a much stronger impact with 1 plant, so to say, it's not an operation between 8% and 10%, assuming a world-scale plant between 8% and 10% of the global market is out. So -- and that's why those 2 plants that were out in Europe represented 80% to 85% of the European market and almost 20% of the global market. And you cannot just easily [restart] it because it needs to run at around 50% plus output rate.

So you don't have the decision like an MDI more or less with the overall, let's say, a number of plants being out there that an individual competitor can say, okay, we run on 1 line, [but] 2 lines or 3 lines. And in that particular context, therefore, not so many plants have been taken out or capacity. And at the same time, you have much higher flexibility to steer, let's say, and being therefore also a little bit closer to market demand. So it's not a jumping of capacity in or out, but no more gradual adjustment.

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Thomas Swoboda ***Societe Generale Cross Asset Research - Research Analyst***

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Operator

Mr. Swoboda, unfortunately, has dropped out of the line. (Operator Instructions)

So I believe I will continue with the next questioner.

And meanwhile, we have one other questioner. This is Ms. Isha Sharma of Stifel.

Isha Sharma ***Stifel Europe, Research Division - Analyst***

You mentioned that you would need to reduce also your inventory levels in the current circumstances. How long would it take for you to be at a level where you feel comfortable? Would it be one quarter or two quarters? And the other question is you have reiterated your mid-cycle earnings level. And my question is if you think that you should revisit it, given the structurally higher energy costs in Europe? And how should we think about it in the next 5 years.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

So Isha, this is Thomas speaking. To your first question, I think we can achieve the desired inventory level within Q4. We have some ambitious but achievable plans to then also achieve our cash flow guidance for the year, but we think we can do it until the year-end.

And on the second question, I say, no, we do reconfirm our mid-cycle EBITDA assessments and assumptions that we have because we do think that the LNG arbitrage will bring energy costs clearly below EUR 100 once LNG is fully available. And I think already today, we do see that energy prices are around that level. And that does mean that it becomes, again, a regional market, and we are the technology and the cost leader in every regional market. And therefore, we think that the competitive dynamics of the industry in that scenario, which we think is our base case, should not change.

Operator

And the next question comes from Mr. Geoff Haire of UBS.

Geoffrey Robert Haire ***UBS Investment Bank, Research Division - MD and Equity Research Analyst***

I just wanted to ask a question around impairments of assets. I'm not in the content. So this may be a fairly simplistic question. I just wonder at what point, given the closures you've got in TDI and obviously running MDI at lower capacity utilization, will you have to consider impairing some of the assets.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

I think, Geoff, I mean, very simple. We follow the rules of IFRS here. Clearly, the current economic environment is a triggering event to have a look at our values in terms of goodwill, but also in terms of asset values. I think it shouldn't be a surprise as you know that some of our SBEs are at the brink of such a test. We have also in the last annual report noted that SPET with a 10% sensitivity would run into a need for impairment. And therefore, I think with that indication, we'll be running into that test. And I would clearly not exclude that it will lead to an impairment need, which I think in a crisis is, in general, not a surprise.

Operator

I have one more question, it comes from Mr. Oliver Schwarz of Warburg Research.

Oliver Schwarz ***Warburg Research GmbH - Chemical Analyst***

Only a few ones that are left. Firstly, I'd like to pick on the question of Mr. Swoboda, who was cut short by his technical problem, I guess. So can you spell out the idle costs for 2020 -- expected idle costs for 2022 plus, the ones for Q3, please. And as your guidance -- or not guidance, but as your indication for 2023 based on September numbers is EUR 900 million. You said the volumes will mirror those of 2022? Do you expect additional idle costs for 2023 as well or does that imply just a lower overall capacity utilization in all regions. Is that the base assumption that you're making in that EUR 900 million EBITDA indication that you gave? That would be my first question.

Second question is, obviously, unions are currently negotiating with the chemical industry for higher wages. So what have you penciled in for the increase in wage costs for 2023 when coming to this EUR 900 million assumption?

And lastly, is it a coincidence that you are, let's say, indication of a negative net result for 2023, which is implied by the EUR 900 million EBITDA indication comes, well, just in time for the start of the negotiations with the unions in Germany.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

So Oliver, let me try to answer those questions and start with the first one from Thomas Swoboda. So, I would assess the idle cost for Q3 to be roughly in the mid-double-digit million range. And for Q4, I would probably pencil in a high double-digit number as a vast indication of the order of magnitude. Now for 2023, the assumption is, as Markus said, that the volumes will be flat over the course of the year. So you will see a volume decline in the first half and then growth in the second half. So, I would not assume any higher idle costs because the stock level at the end of 2023 will be higher than what we had at the end of 2022, and that should be taken into account.

To your second question, I mean, the collective bargaining agreement in Germany has been ticked off, has been done. So the agreement was 3.25% as of January 1, if I'm not mistaken, plus 50% of the EUR 3,000 tax-free onetime payment, and that is fully consistent with our plans for the cost development next year.

Oliver Schwarz ***Warburg Research GmbH - Chemical Analyst***

Okay. And we are taking the 3.25% that you just mentioned as a basis for calculations, I guess. Just a quick one. Your competitor BASF has initiated a cost savings program, that it feels is necessary to ramp up profitability in the midterm given that costs are going to increase both of the energy and on other variable costs. You seem to be reluctant to do the same or announce something like that. So your midterm guidance is I think bare, or that's at least my assessment, bare of any, let's say, future, let's say, major cost reduction program. Would that be a fair assessment?

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

So I would say, Oliver, yes, BASF has announced specifically a program. I would say we've been honored already since a longer time, you may know that we have given the company a new structure, and we call this the LEAP program at the middle of 2021 and the guiding start of that was, of course, that from that structure, we wanted to tap into efficiencies and cost reductions. And therefore, the program to realize exactly those savings essentially has been ongoing since the middle of last year. And what is true though is that in light of the current situation, we have pressed even harder for the quick implementation of exactly those savings. And therefore, I would think they would come and help to compensate for exactly those wage increases and some of the cost inflation that you've just mentioned.

In addition to that, but we maybe don't talk about it so publicly, yes, we're also, of course, pulling the usual levers that you do in such a situation with respect to the usual suspects, so travel, entertainment, et cetera, et cetera. So we do that but we didn't feel the need to make it a public announcement because the organization is on it since already several quarters.

Operator

We have Mr. Thomas Swoboda back on the line.

Thomas Swoboda ***Societe Generale Cross Asset Research - Research Analyst***

Yes. Sorry for the technical issue. I will still try two quick questions. Benzene costs were very high in Q3. I remember we discussed that broadly in the call. My question is, was that a bigger headwind in Q3? And is this already digested or is it going to bug you in Q4?

And very quickly on TDI. I mean we have been recurrently hearing from you and from your peers that MDI and TDI do not travel that well. Apparently, you are serving your clients from other plants importing into Europe. I mean how long are you comfortable doing that? Is this just a short-term fix? Or is it something that could last for longer?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes. Thomas, benzene has seen quite some peaks. You're absolutely right. Currently, we are talking about benzene prices of about EUR 900 per ton. The peak, just in comparison, has been at EUR 1,700 plus. And we believe that we could mainly digest this in the third quarter, but it will also last a little bit into the fourth quarter because we're still selling off inventories that have been produced with those higher costs. So long story short, it takes some time due to the slightly subdued demand, in particular in Europe, some time to digest those costs.

And on the second question. Yes, once again, these are the most complex questions. You're right, on the one hand, MDI and TDI are not traveling very well. That's true. And that's why, in particular, on MDI, you see only a part of the market segments being supplied with imported MDI simply where lower reactivity after long transportation is still acceptable for the particular application of the customer. So that means serving an MDI market from outside Europe, given all the complexities, import, cooling and so on and so forth. As I said earlier, it will be difficult in the mid to long run. That's number one. And even in the short run to further increase MDI import into Europe, it is a challenge because as we see with TDI, there's simply not sufficient capacity available to cover up for the entire European overall production capacity. So that's number one.

TDI, same topic. We're just currently seeing from recent price developments, in particular in China, going through the roof. This is the rather short-term solution because once TDI prices are back to a level where it pays off to restart European TDI plants, they will be restarted. And that's why I do not think that there will be a mid to long-term opportunity to really continue to supply from the outside world.

And once again, let me reiterate one other topic. This is a market where you supply in the region for the region. We have seen geopolitical disruptions currently going on and manifesting itself. And we have seen over the last 2.5 to 3 years significant supply chain disruptions. So, many customers are concerned about being able to only bank on long-distance imported goods and that's why I believe next to all the spreadsheet calculations that might lead to different assumptions, I truly believe that there will be demand for European-based TDI production, there will be demand for European-based MDI production as well as respective consumptions.

Operator

And we have one more follow-up question from Mr. Jaideep Pandya.

Jaideep Mukesh Pandya ***On Field Investment Research LLP - Analyst***

Just a couple actually. Firstly, just on your net debt levels right now. I mean even if I adjust for your current sort of EUR 900 million mark-to-market, you're sort of running roughly 3x net debt-to-EBITDA. I mean assuming you do the MDI CapEx next year, does it concern you at all that you're sort of not in a situation like a couple of quarters or years ago where you were sub-2x. So is the net debt-to-EBITDA at all a concern if you can remind us if there are any covenants or anything around your debt?

And then the second question is more of a philosophical nature. Your shares obviously have taken a beating this year, and you could easily get somebody walking in the room [with 50-year-olds] and people jumping on it. So are you at all worried about having a defense strategy right now or because the market is so negative, you don't really think nobody is going to be interested? So you're not really bothered about that topic.

Thomas Toepfer ***Covestro AG - CFO, Labor Director & Member of Management Board***

Jaideep, this is Thomas. I'm not sure whether I got your first question completely correctly, because the line was breaking up in the middle. But what I would say is, we're absolutely committed to a solid investment-grade rating. And therefore, the rating consideration always play a role when we look into future decisions. I do think that if we are above 3x net to EBITDA for a single year that would probably be accepted by Moody's because if you look at their rating reports, they have clearly understood the nature of the business. They have also understood the commitment of the management. And therefore, I do think that they would accept that. But let me reiterate in all the decisions that we take, of course, we do want to make sure that the company is not risking its solid investment-grade rating.

On your second question, I mean -- sorry, and I'll just get [aside]. And we have no covenants. I should mention that. So we're not risking of course, the existing indebtedness of the company because it is covenant free. So that's not a topic.

And on your second question, yes, the share price is where it is. We always take the defense topic serious. I think on the day we don't take it seriously, commit the first mistake. But it's, of course, also a fact that if somebody were to come, I think it would be our fiduciary duty to look at the proposal if it is a good one. And we would, of course, kind of be compliant with that fiduciary duty. I think that would be my statement on this one. Thank you so much.

Operator

There seems to be no further questions in the line.

Ronald Koehler ***Covestro AG - Head of IR***

Good. Thank you all for listening in and for all your interesting questions. If you have more questions, don't hesitate to come back to the IR team. And yes, I wish you all a good day then. Thank you, and bye.