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**Oral Testimony for USITC Public Hearing on U.S.-EU Trade Agreement:**

**Advice on the Probable Economic Effect of Providing Duty-free Treatment  
For Currently Dutiable Imports**

**December 18, 2018**

The American Chemistry Council (ACC) appreciates the opportunity to testify today on duty-free treatment for chemicals trade and other U.S. chemical sector priorities for a potential trade agreement between the United States and European Union (EU).

The success of the U.S. chemicals industry hinges on our ability to engage with global markets. Chemicals are used to add value in nearly every stage of manufacturing goods. They are essential inputs to global, regional, and bilateral supply chains. U.S. chemical exports last year reached \$130 billion, accounting for 10 percent of all U.S. exports and 9 percent of all global chemicals exports. Thirty percent of our workforce is in export-dependent jobs, and even more jobs are dependent on imported inputs and intermediate goods.

The U.S. chemical industry is in a period of historic expansion. Many of our new capital investments in America are export-oriented. By eliminating tariff barriers, a U.S.-EU free trade agreement would expand our market access and therefore make U.S. exports more competitive. In 2017, the U.S. exported more than \$20 billion in chemicals to the EU. We imported more than \$25 billion. A significant portion of U.S.-EU chemicals trade is between related parties: 58 percent of chemical exports, and 80 percent of chemical imports.

The significant volume of trade between related parties is due to the highly integrated and efficient nature of the U.S. and EU chemical manufacturing supply chains. Removing both tariff and non-tariff barriers to the free flow of chemicals between the U.S. and EU would yield significant cost savings to ACC members and our downstream customers.

To that end, ACC is pleased to share with you today an overview of our recommendations and objectives for a successful trade agreement with the European Union.

- 1. Tariff Elimination and Market Access:** Total tariff elimination, including the elimination of the U.S.-imposed Section 232 tariffs on steel and aluminum imports from the EU, continues to be one of ACC's top priorities. Tariff elimination removes price distortions from



the market and allows trade patterns to more closely reflect the comparative advantages of the domestic producers. It also introduces foreign competition.

The average tariff rate on chemicals trade between the U.S. and EU is 3 percent. Eliminating U.S. tariffs on chemical imports could save U.S. chemical manufacturers \$758 million annually. Eliminating EU tariffs on chemical imports would reduce tariffs paid in the EU by \$614 million annually. We therefore reiterate our desire for the United States and European Union to eliminate immediately their respective chemicals tariffs under Harmonized System Chapters 28-40 without any transition periods or staging of tariff reductions.

The U.S. and EU should further consider the benefits of making chemical tariff elimination a multilateral goal. As chemicals touch on 96 percent of all manufacturing and play a critical role in global, regional, and bilateral supply chains, duty-free trade will reduce costs for chemical manufacturers and promote innovation, job creation, and competitiveness for both parties. It will also compel other economies around the world to follow suit rather than maintain higher cost environments through higher tariffs. We also recommend that any U.S.-EU trade agreement allow companies to engage in duty drawback, which emphasizes that imports are essential to export competitiveness.

Furthermore, ACC urges the United States to eliminate its Section 232 tariffs on steel and aluminum imports from the European Union. The EU is applying retaliatory tariffs on \$500 million in exports of U.S.-made chemicals. These retaliatory tariffs are limiting the ability of U.S. chemical manufacturers to access the EU market. We also urge the United States and European Union to avoid the imposition of quotas of any kind on imports of EU steel and aluminum. Such quotas would cause significant disruption for U.S. chemical manufacturers building chemical manufacturing plants in the United States.

- 2. Regulatory Cooperation:** The U.S. and EU made significant progress on regulatory cooperation for the chemicals sector during the TTIP negotiations. The United States has since made further progress in the Sectoral Annex for Chemical Substances in the U.S.-Mexico-Canada Agreement (USMCA). Based on this progress, we recommend that the new U.S.-EU negotiations create a distinct track for regulatory cooperation for the chemicals sector and build on the outcomes of the USMCA.
- 3. Rules of Origin for Chemical Substances:** Chemical manufacturers will benefit from duty-free trade only if the rules of origin for chemical substances are flexible, simple, and transparent. We recommend that the United States build on the rules of origin outcomes of the USMCA, including creating a menu-based approach that has the fewest number of exceptions as possible.
- 4. Digital Trade:** Digital trade based on the free flow of data across borders is critical to chemical manufacturers. State-of-the-art provisions on promoting data privacy, enabling open cross-border data flows, prohibiting data localization requirements, and strengthening cybersecurity while respecting intellectual property rights will be critical. The USMCA provides a starting point for strong provisions on digital trade.



5. **Trade Facilitation**: ACC recommends that the United States and European Union pursue a World Trade Organization (WTO) Trade Facilitation Agreement “plus” approach to customs and trade facilitation efforts in their bilateral negotiations.
6. **Dispute Settlement**: We recommend that the United States and European Union agree on binding and enforceable state-to-state dispute settlement. We also urge both parties to accept investor-state dispute settlement provisions for all sectors without limitations on the claims that investors can make on specific investment protections.
7. **Duration of the Agreement**: A U.S.-EU trade agreement should provide maximum predictability and certainty to investors and traders. We support making improvements to the agreement as international trade evolves, but recommend avoiding the inclusion of timeframes for an early termination or sunset of the agreement.
8. **Addressing Sources of Marine Litter**: There is a global need to support infrastructure development to collect, sort, and process used plastics. Such infrastructure will create opportunities for trade and investment and help keep used plastics out of the environment, thereby reducing marine litter. We recommend that the U.S.-EU trade agreement build on the marine litter language in the USMCA Environment Chapter.

I will close with one final and urgent recommendation from U.S. chemical manufacturers. We strongly encourage the U.S. and EU to work together and with other like-minded governments to address trade-distorting practices by other countries. ACC and its members stand ready to assist the Administration in the creation of a coalition of allies in the WTO to protect and enforce its trading principles around the globe.

Thank you again for the opportunity to provide input on behalf of ACC members and the business of chemistry in the United States.

