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Oral Testimony for USITC Public Hearing on U.S.-UK Trade Relations and the Probable Economic Effect of Providing Duty-Free Treatment for Currently Dutiable Imports

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The American Chemistry Council (ACC) appreciates the opportunity to testify today on the U.S. chemical industry's priorities for potential trade negotiations between the United States and the United Kingdom (UK). Our testimony assumes that the UK will be able to negotiate its own trade agreements upon leaving the European Union (EU). It also assumes that the UK's average tariff rate for chemicals is 3 percent, which is similar to the average tariff rate for chemicals for the EU.

Trade in chemicals is a strong feature of the U.S.-UK trading relationship, totaling \$5.7 billion in two-way trade in 2017. U.S. exports of chemicals to the UK account for approximately \$2.8 billion, and U.S. imports of chemicals from the UK account for the other \$2.9 billion. 54 percent of chemical imports from the UK, and 39 percent of chemical exports to the UK, are between related parties. The significant volume of trade between related parties is due to the highly integrated and efficient nature of the U.S. and UK chemical manufacturing supply chains.

ACC and its members believe a U.S.-UK trade agreement would achieve concrete and tangible outcomes for chemicals manufacturers in both markets. To that end, we are pleased to share with you today an overview of our recommendations and objectives for a successful trade agreement with the United Kingdom.

1. **Tariff Elimination and Market Access:** ACC recommends that the U.S. and UK eliminate their respective chemicals tariffs under Harmonized System Chapters 28-40 without any transition periods or staging of tariff reductions. According to ACC analysis, a trade agreement that eliminates U.S. tariffs on chemical imports from the UK could save U.S. chemical manufacturers \$88 million per year. Eliminating UK tariffs on chemical imports from the U.S. would reduce tariffs paid in the UK by \$84 million. The cost savings from these tariff eliminations would help boost economic and job growth.

As part a comprehensive tariff elimination plan, ACC also encourages the U.S. to eliminate its Section 232 tariffs on steel and aluminum imports from the United Kingdom. Any potential UK retaliatory tariffs targeting chemicals would limit the ability of U.S. chemical manufacturers to access the UK market. We also urge both countries to



avoid the imposition of quotas of any kind on imports of UK steel and aluminum, which would impede the construction of chemical manufacturing plants in the United States.

The U.S. and UK should further consider the benefits of making chemical tariff elimination a multilateral goal. It is our position that free trade agreements can compel other economies around the world to follow suit rather than maintain higher cost environments through higher tariffs.

2. **Regulatory Cooperation:** ACC believes that regulatory cooperation remains a powerful mechanism for preventing barriers to trade, aligning regulatory procedures, and creating efficiency gains for U.S. chemical manufacturers, particularly small and medium-sized enterprises. The goal of regulatory cooperation is to explore opportunities for creating efficiencies within and between regulatory systems, while maintaining high levels of protection for human health and the environment. Regulatory cooperation should not undermine or weaken regulatory mandates. Rather, it can help to ensure that those mandates do not result in unnecessary barriers to trade.

ACC encourages the U.S. and UK to build on progress already made on talks related to regulatory cooperation during the Transatlantic Trade and Investment Partnership (TTIP) negotiations. The U.S.-Mexico-Canada Agreement (USMCA) and the ongoing U.S.-Canada Regulatory Cooperation Council (RCC), both of which have created a distinct track for regulatory cooperation for the chemicals sector, are informative models.

Again, ACC believes the goal of regulatory cooperation should be to create efficiencies and encourage new growth and innovation by reducing non-tariff and tariff barriers to trade, while maintaining protections for human health and the environment.

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 – in particular, by ensuring that the chemical reaction rule is available to traders for conferring origin, and avoiding regional value content requirements.
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. Data flows are essential for establishing and maintaining global value chains. They are essential for strengthening manufacturing in both the United States and United Kingdom and enabling the myriad of downstream industries that rely on chemical innovations. We recommend that the U.S. and UK take the best-in-class digital trade outcomes of the USMCA as their starting point and build on and strengthen them where possible.
5. **Trade Facilitation:** ACC recommends that the U.S. and UK pursue a World Trade Organization (WTO) Trade Facilitation Agreement “plus” approach to customs and trade facilitation efforts in their bilateral negotiations. This includes promoting digital trade;



targeting infrastructure projects to remove bottlenecks on the movement of exports; modernizing transport security requirements; and harmonizing clearance procedures.

6. **Dispute Settlement**: Chemicals manufacturers in the U.S. rely on enforceable state-to-state dispute settlement in trade agreements. We urge both the U.S. and UK to accept investor-state dispute settlement provisions for all sectors without limitations on the claims that investors can make on specific investment protections. Outcomes that fall short of this standard will give other countries around the world ample reason to weaken the rule of law, due process, and transparency in their own domestic systems and in their trade agreements.
7. **Duration of the Agreement**: A U.S.-UK trade agreement that stands the test of time will help ensure maximum predictability and certainty to investors and traders. ACC supports 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**: The U.S. and UK can play a strong role together in promoting better waste management capacity for used plastics in all countries. Trade in used plastic enables efficient processing of those materials, while creating valuable new materials and products and business opportunities. We recommend that the U.S.-UK trade agreement build on the marine litter language in the USMCA Environment Chapter.
9. **Addressing Trade-Distorting Practices**: Lastly, the U.S. and UK must work with like-minded governments to address trade-distorting practices by other countries. Specifically, both the United States and United Kingdom should develop new rules on protecting and enforcing trade secrets; eliminating forced technology transfer; ensuring the free flow of data across borders; reducing barriers to foreign direct investment; and championing free markets over state-led capitalism. 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 WTO trading principles around the globe.

We look forward to working with the Administration if it enters trade agreement negotiations with the United Kingdom. Thank you again to the Commission and USITC staff for the opportunity to provide input on behalf of ACC members and the business of chemistry in the United States.

