ACC REPORT: NAFTA CRITICAL TO GROWTH AND JOB CREATION BY U.S. CHEMICAL MANUFACTURERS

New Data Confirms NAFTA Has Driven Historic Growth; Highlights Potential For Modernized Trade Pact To Boost U.S Chemical Exports, Support Trade Balance

WASHINGTON (February 28, 2018) – By modernizing the North American Free Trade Agreement (NAFTA), President Trump can help the U.S. capitalize on the chemical industry’s strong competitive advantage created by domestic shale gas; boost U.S. chemical exports to Canada and Mexico by 34 percent by 2025; and support the chemical industry’s positive contribution to the U.S. trade balance, according to a new economic report released today by the American Chemistry Council (ACC). A U.S. withdrawal from the trade pact would have virtually the opposite effect, creating a tariff burden of up to $9 billion on U.S. chemical exports to Canada and Mexico, translating into higher prices for manufacturers and consumers and likely forcing the industry’s two largest trading partners to turn to lower-cost imports from China to satisfy their demand for chemicals and plastics.

NAFTA a Boon for U.S. Chemical Manufacturers

According to ACC analysis, NAFTA has been instrumental to the growth and job creation of the U.S. chemical sector. U.S. chemical exports to Canada and Mexico have grown from $13 billion in 1994 to $44 billion in 2018, the report says. They are projected to reach $59 billion by 2025.

“President Trump has the opportunity to help American manufacturers achieve enormous growth under a new, stronger and more modern NAFTA,” said Cal Dooley, president and CEO of ACC. “In 2016, the chemical industry saved approximately $700 million in tariff relief on those exports, and $800 million in tariff relief on imports. The cost savings have helped drive economic growth throughout the manufacturing supply chain and lowered prices for manufacturers and consumers.”

“NAFTA has worked for American chemistry, and in return, ACC members have made NAFTA work for Americans,” Dooley added. “46,000 chemical industry jobs now depend on chemicals trade with Canada and Mexico. Future growth depends on modernizing this trade pact.”

U.S. Well Positioned to Meet Global Chemicals Demand

According to ACC analysis, American shale gas has created a competitive advantage for U.S. chemical manufacturers. The low-cost feedstocks, together with tariff relief provided by NAFTA, have helped position the U.S. as a leading global supplier of chemicals.
For example, since 2010, chemical producers have announced 317 new projects valued at $185 billion in new investment. Sixty-two percent of that investment is foreign direct investment, reflecting the confidence that foreign companies share that the U.S. is well-positioned to serve the global market. The projects are expected to yield $310 billion in new economic output per year and create 465,000 direct and indirect jobs – many in regions of the U.S. that need them the most.

“NAFTA has given chemical producers confidence to invest by providing certainty that increased volumes of U.S. chemical and plastic products will be tariff-free for our NAFTA partners,” said Emily Sanchez, director of economics and data analytics at ACC, and one of the lead authors of the report. “With a long capital cycle, certainty and confidence in future trade relationships, especially with the U.S.’s two largest trading partners under NAFTA, are essential to justify future investment.”

According to the ACC report, new exports of shale-advantaged chemicals and plastics will reach $30 billion by 2025, $13 billion of which will be destined for Canada and Mexico. The report cautions, however, that more than half of the $185 billion of announced shale-related investments are planned future investments, and the uncertainty created by withdrawing from NAFTA could make the projects vulnerable to delay or derailment.

Opportunities to Make NAFTA Work Better

The economic report follows nearly a year of robust advocacy and congressional outreach by ACC that has focused on growing the benefits of NAFTA for U.S. chemical manufacturers and making the integrated North American supply chain work even more effectively and efficiently.

For example, ACC has advocated for a simple, clear, and flexible menu of options for determining country of origin, similar to what other more recent trade agreements provide. ACC believes a modernized agreement should also promote regulatory alignment and strengthen the implementation of OECD Good Regulatory Practices to promote transparency and stakeholder dialogue on regulations.

“Our industry is particularly encouraged by the recent progress negotiators have made to enhance regulatory cooperation between the U.S., Canada, and Mexico, consistent with President Trump’s goal of reducing regulatory barriers to trade,” said Dooley. “By promoting greater alignment of chemical regulations based on a risk- and science-based approach, North American chemical regulations can serve as a model for the rest of the world.”

Without NAFTA, A Major Shift in Trade Patterns

In order to demonstrate the incredible gains that the U.S. can achieve by modernizing NAFTA, the ACC report foretells a grim economic outcome should the U.S. withdraw from the trade pact.

“NAFTA has protected the U.S. and our investors from extreme tariff uncertainty for more than two decades,” said Sanchez. “Without those protections in place, tariff rates could rise dramatically, creating a domino effect that puts American businesses, investment, and jobs at risk.”
According to the report, U.S. chemicals exports to NAFTA partners could drop by as much as $22 billion, or 45 percent of the current export total, creating a total lost chemistry demand of $29 billion when contractions in end-use industries such as automotive, electronics, and appliances are combined with direct losses to chemistry exports.

“Manufacturers in the U.S. have maintained their competitive position in the global marketplace by extending their supply chains regionally,” said Sanchez. “Without NAFTA, tariffs would be levied on manufacturing components, some of which may cross the border as many as seven or eight times before a final product is complete. Trade and tariff costs would rise to levels we’ve never seen before.”

China Waiting in the Wings

Increasing the costs to do business in the U.S. will invite lower-cost competitors to enter or increase their presence in the U.S. market, the ACC report says. China has deepened its trading relationships with Canada and Mexico in recent years. North American chemistry imports from China more than doubled to $35 billion between 2005 and 2015, according to ACC analysis. Without NAFTA, tariffs will increase the cost of U.S. goods for Canadian and Mexican firms, making chemicals and plastic products from China more affordable and attractive. The U.S. would effectively forfeit its North American market position to China.

“Chemistry touches 96 percent of all manufactured goods, and when the price of chemicals goes up, customers begin to look for cheaper substitutes,” explained Dooley. “Withdrawing from NAFTA will not strengthen America’s competitive advantage – and it might even give trading partners the power to price us out of the market entirely.”

“We urge President Trump and Ambassador Lighthizer to focus on modernization to make NAFTA work even better for our industry and our country,” Dooley added. “With a productive NAFTA for the future that provides certainty, access and enforceability, the U.S. chemical industry is poised to create significant growth and new jobs, helping President Trump deliver the kind of economy that Americans deserve.”

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