

Cefic views on “Trade for All” Paper

Introduction

The chemical sector has a unique place in the manufacturing hierarchy for various reasons. Firstly, this sector underpins all sectors of the economy and therefore it is considered to be the backbone of all industrialized economies. Secondly, it is positioned near the start of a complex economic value chain and therefore acts as a catalyst in creating millions of jobs downstream. Thirdly, the chemical sector is one of a kind in being the only sector that consumes its own products which gives an additional incentive to be resource- and energy efficient. Last but not least, it helps to improve the quality of human life. As the chemical sector works to provide solutions to the global challenges we are currently facing (i.e. energy security, climate change, food waste, clean water and many more), new sources of economic growth will be created, providing a significant economic opportunity. And in order to benefit from this opportunity, Europe and its chemical sector need to be competitive.

However, Europe is not competitive enough, as the Oxford Economics report from 2014 on the global competitiveness of the European chemicals industry from 2015 has highlighted. While European chemical sales have nearly doubled in the past twenty years, our share of global sales over the same period has declined from 32% to 17%. The report confirms that the majority of this decrease is due to declining competitiveness as opposed to slow growing destination markets and that this erosion of export competitiveness is most notable in the petrochemical- and polymer sectors.

As regards competitiveness, one key policy pillar is a strong commitment for free and fair trade that focusses not only on the removal of tariffs, but indeed also on the so called 21st century issues. Nowadays trade is no longer about "produced here, sold there" but "produced everywhere, sold there" and the rise of global value chains gives all countries an interest in keeping chemical import duties low.

Based on the above and born in mind the provisions of the Common Commercial Policy (Article 207 of the Lisbon Treaty), our key message is that Trade For all should first and foremost focus on creating export markets for European businesses. This coincides with the key underlying aim of the Common Commercial Policy. Trade policy should be the enabler of societal and environmental policies, *not* a substitute and primary goal should be liberalizing trade and promote economic growth. The current deteriorating global scene (geopolitical instability, economic weakness in emerging economies, increasing migration pressure) further necessitates free trade based on international rules. We regret to note that this primary focus is not sufficiently evident in the communication ‘Trade for All’. In addition, much will depend on the availability of sufficient resources for DG Trade to work on multiple FTAs at the same time.

The remainder part of this paper will elaborate further on our main message as well as on the key elements to expand global chemicals trade.

Key elements to expand global chemicals trade

- ✓ Much remains to be done in **opening markets** preferably at a multilateral level through the World Trade Organization (WTO) or via pluri- or bilateral or regional trade agreements and the rule-setting function of the WTO needs to be strengthened;
- ✓ The need to **eliminate tariffs for all products** including chemicals and ‘behind the border’ barriers need to be stripped away as well. In this regards, we need greater harmonization of **standards and regulations** around the world and the appropriate mechanism to reduce regulatory divergence need to be put in place;
- ✓ In order to promote the maximum use of the tariff benefits of FTAs, we need **simple and flexible rules of origin as stipulated in the joint Cefic/ACC proposal within the framework of TTIP**;
- ✓ Policies improving including international IP protection and a suitable framework for international data flows;
- ✓ Better access to affordable **energy and raw materials** and the need for improved rules that govern access to (renewable) raw materials at a multilateral level;
- ✓ In order to spur (further) development of bio-economy within Europe, it is vital to have access to **renewable raw materials at world market prices**. In this regards, import duties need to be suspended for key renewable feedstock sources like bio-ethanol, palm oils and sugar;
- ✓ International Investment: Open up markets and improve the current system of investment protection by means of a strong dispute settlement mechanism and a rules based model to protect EU investments in 3rd countries from arbitrary decisions;
- ✓ Regulatory fragmentation: Start initiative to reduce the tendency towards regulatory fragmentation;
- ✓ The need to **modernize the EU Trade Defense Instruments (TDIs)**, including provisions to correct distortions caused by unfair practices in trade in raw materials. In this regards, we note that increased transparency is a respectable starting point but it should not be an end goal on its own and that each proposal to increase transparency in TDIs should be carefully looked at in terms of real added value and its price to be paid;
- ✓ The need to have an effective and efficient **Market Access Strategy** that tackles non-tariff barriers imposed by third countries. This requires stronger enforcement. Here we note that while the trade barriers to export nitrocellulose to third countries remained unsolved, the EU granted a tariff suspension allowing for duty free exports into EU;

- ✓ A strong and determined commitment to better regulation, competitiveness and pro-innovation policies;
- ✓ A strong and determined commitment to refrain from implementing unilateral regulations which are not agreed internationally and therefore put the EU industry on disadvantage versus its worldwide competitors.

Trade policy and values

The communication paper *“Trade for All: towards a more responsible trade and investment policy”* is in its essence an attempt to extend the underlying economic basis of trade policy instruments to a “trade and investment policy based on values”.

Here, it is important to stress that the relevant question is not for *whom* trade policy is for, but rather *what* is trade policy about. Theory and empirics indicate that free flow of goods, services and ideas is to the benefit of a society overall and to the majority of its population (notwithstanding that subsequent structural change will not only create winners) Because of its wealth-raising and horizon-widening potential, an open-door trade policy in our view should be seen as an enabler of the European societal and environmental values and it should not be considered as a substitution. In other words: the focus should be to liberalize trade and promote competitiveness and economic growth and this in turn will allow for further development of (global) societal and environmental values. Trade has an enabling role instead of a leading role.

Trade policy and resources in DG Trade

DG Trade is at the driver’s seat of a very ambitious FTAs agenda with twenty seven negotiations ongoing. Although we welcome all endeavors to real opening up markets, it remains to be seen how this ambition will be implemented, including ratification by all relevant institutions. The ambitions as laid down in “Trade for All” also require sufficient resources to be allocated to the trade services, including to trade defense.

As indicated above, the chemical industry prefers the multilateral route to enhance trade and while we consider the bilateral and regional routes as complementary, they are not the silver bullet. There exists the complexity of mixed agreements and as we are witnessing with CETA, the ratification proves to be a difficult process. Finally, due to the scarcity in resources, there is a need to prioritize EU free trade negotiations highlighting EU’s regional priorities (US, Japan, China, ASEAN).

Concluding remarks

European chemical industry needs a strong and competitive advantage in order to remain a key exporting region in the world. This can only be achieved through three key policy areas:

1. Competitive energy pricing by means of an effective single European energy market;
2. A strong and determined commitment to better regulation and pro-innovation policies;

3. A strong free trade commitment, focused on the removal of both tariff and 'behind the border' barriers to trade with all our (major) trading partners.

The European chemical industry needs the right policies combined with a holistic policy approach across the Commission DGs in order to remain a competitive participant in the global industrial economy.

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About Cefic

Cefic, the European Chemical Industry Council, founded in 1972, is the voice of 29,000 large, medium and small chemical companies in Europe, which provide 1.2 million jobs and account for 17% of world chemicals production.