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Oral Testimony for USITC Public Hearing on
"Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2021 Update"

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Thank you for the opportunity to testify today on behalf of the U.S. chemical manufacturing industry. Our testimony today will cover two trade agreements of importance to our industry: the Uruguay Round agreements that created the WTO and the North American Free Trade Agreement (NAFTA), now the U.S.-Mexico-Canada Agreement as of July 1 of this year. ACC will also file more detailed written comments by November 6.

Chemistry is vital to creating ground-breaking products that make our lives and our planet healthier, safer, and more sustainable. U.S. free trade agreements negotiated under trade promotion authority have enabled the innovative products of chemistry to reach the countries and businesses that need them the most. These agreements serve two important functions for the U.S. chemical industry and our customer industries:

- First, they generally provide greater certainty on tariff rates.
- Second, they can reduce and prevent non-tariff barriers to trade through good regulatory practices, transparency, regulatory cooperation, and other means.

Tariff elimination and regulatory alignment with key trading partners are essential to the global competitiveness of U.S. chemical manufacturers. U.S. free trade agreements, in particular the North American Free Trade Agreement (NAFTA), are the foundation of the multilateral trading system as embodied by the World Trade Organization (WTO). U.S.-written rules, and the U.S. strategy of competitive liberalization, compel trading partners to include higher standards in their own trade agreements. As a result, they become better partners and advocates at the WTO.

Let me first discuss the importance of tariff elimination. In an ideal world, tariff elimination for chemicals would lead to the lowest possible bound rates at the WTO; the binding of unbound tariff rates; and the avoidance of additional duties on top of applied duties. High chemicals tariffs hurt the ability of U.S. chemical manufacturers to access new markets. They also limit key economic sectors – for example, agriculture, automotive, building and construction, civil aviation, and information technology – from buying innovative U.S.-made chemicals.

The U.S. chemicals industry attaches great importance to WTO members' tariff commitments through their goods market access schedules and the Chemical Tariff Harmonization Agreement (CTHA) from the Uruguay Round. The CTHA defines the chemicals sector as all tariff lines Harmonized Schedule Chapters 28-39. Under the CTHA, U.S. tariff rates for chemicals range from zero to 6.5 percent. The U.S. average bound and applied MFN rate for chemicals is 2.8 percent. All U.S. chemical tariffs are bound. Canada, China, the European Union, Japan, Saudi Arabia, and Vietnam participate in the CTHA, but many emerging, high growth markets do not.

The WTO's 2020 World Tariff Profiles indicates that non-CTHA WTO members maintain high average bound and most favored nation (MFN) applied duties for chemicals. A number of these members still have unbound chemical tariffs, meaning that they can raising tariff rates for certain products to prohibitively high levels without violating their WTO commitments. Relative to CTHA members, their average bound and applied tariff rates for chemicals are higher. For example, relative to the United States, India's average MFN rate for chemicals is 10.1 percent and its average bound rate is 37.6 percent; 11.1 percent of its tariff rates for chemicals are unbound. Malaysia's average WTO bound rate for chemicals tariffs is lower at 11.5 percent, but 24.8 percent of its chemical tariffs are unbound.

Without important emerging markets participating in the CTHA, with significant space between WTO members' applied and bound rates, and without the possibility of a WTO negotiation to bind and lower chemical tariffs multilaterally, U.S. free trade agreements are essential to opening new markets for the U.S. chemicals industry.

NAFTA is the best example of a U.S. FTA that drove multilateral rule-making and liberalization; its successor, the United-States-Mexico-Canada Agreement (USMCA), has set the stage for the next wave of liberalization at the WTO.

Under NAFTA, U.S. chemicals exports more than tripled to Canada and Mexico – from $13 billion in 1994, to $44 billion in 2018. Approximately 46,000 U.S. chemical jobs now depend on trade with Canada and Mexico. And due to the chemical industry's early position in the supply chain, U.S. chemical manufacturers have applied the cost savings from duty-free trade with Mexico and Canada to innovation and supply chain resilience, which ultimately benefits downstream manufacturers and consumers.

U.S. withdrawal from NAFTA – without a USMCA successor -- would have reintroduced tariffs into North American trade, decreasing demand for U.S.-made chemicals. Without a regional free trade agreement, Canada and Mexico could have applied their MFN tariffs on imports from the

United States. They also would have been able to raise their tariffs on U.S. imports to their maximum WTO tariff bindings, resulting in a potential $9 billion annual tariff burden on chemical manufacturing exports to Canada and Mexico, reduced production, and up to 21,000 jobs lost in our industry.

The introduction of new tariffs or additional tariffs can disrupt globally integrated supply chains, make markets less efficient, and create uncertainty for firms that would otherwise be eager to invest in the United States and export to the rest of the world from the United States. We advocate for U.S. FTA partners to eliminate their tariffs in HS Chapter 28-39 upon entry into force and join the CTHA, which will provide greater certainty for U.S. chemical manufacturers seeking to export to foreign markets.

<u>Let me now turn to regulatory alignment</u>. Trade agreements like the USMCA can also prevent and reduce non-tariff barriers to trade through greater regulatory cooperation, transparency, and the implementation of Good Regulatory Practices. The Sectoral Annex for Chemical Substances in the USMCA informs how trade agreements can foster cooperation between governments on chemical regulatory issues.

To ensure the United States and its trading partners can maximize the full benefits of regulatory cooperation, we recommend three critical steps:

- <u>First</u>, we encourage prioritization and implementation of the 2012 Executive Order 13609 on Promoting International Regulatory Cooperation, which has languished over the last four years.
- <u>Second</u>, we encourage appropriate resourcing to U.S. regulators and trade agencies to foster international regulatory cooperation. U.S. regulators, including the U.S. Environmental Protection Agency (EPA), require resources to fulfill their statutory roles AND work with U.S. trade agencies, including USTR and the Department of Commerce, to foster greater regulatory cooperation with trading partners.
- <u>Third</u>, we encourage appropriate resourcing to U.S. aid agencies to enable international regulatory cooperation activities and outcomes. USAID and the Trade Development Agency require more resources for technical assistance and capacity building with U.S. free trade agreement partners or potential partners. For example, robust technical assistance and capacity building will help Mexico implement the regulatory cooperation provisions of the USMCA, which is a priority for the U.S. chemical industry.

ACC strongly supports the WTO, the multilateral trading system, and U.S. membership within the WTO AND we also support modernization of the WTO. We advocate for WTO reform to reflect the innovation contained in the USMCA and adjust for how trade works in the 21st Century. If modernized, the WTO will have a stronger foundation to break down and prevent trade barriers; foster economic growth, innovation, and development; and promote greater regulatory alignment and transparency.

To that end, ACC recommends that the United States spearhead a coalition of like-minded governments to reform and modernize the WTO and its principles. Without a focus on the root causes of trade challenges, increases in tariff and non-tariff barriers will only further distort trade and disrupt supply chains. That's why we urge WTO members to cease and roll back the escalation of trade barriers; prioritize tariff liberalization; reinvigorate the WTO's rule-setting and dispute settlement pillars; engage fully in the ongoing WTO committee processes; and implement in full their existing transparency provisions, particularly with respect to the Technical Barriers to Trade Agreement.

Thank you for considering these ideas and recommendations. We look forward to serving as a resource to the Commission as it drafts its report and working with like-minded stakeholders to advance the U.S. free trade agreement agenda, which will benefit of U.S. chemical manufacturers and our customers around the globe.

Thank you.