Society of Chemical Manufacturers & Affiliates

Ms. Lisa R. Barton
Secretary to the Commission
US International Trade Commission
500 E Street SW
Washington, DC 20436

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Testimony by the Society of Chemical Manufacturers and Affiliates (SOCMA) for Investigation No. 332-555, Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures

Thank you for the opportunity to testify before you today. My name is Jim DeLisi. I am President of Fanwood Chemical and Chairman of the Society of Chemical Manufacturers and Affiliates' International Trade Committee. I have been actively involved with trade policy since I joined the Committee in the early 1980s, which encompasses almost the entire period of this study. I am also the current Chairman of ITAC 3, the Industry Trade Advisory Committee for Chemicals, Pharmaceuticals, Health/Science Products and services, having joined this group in 1989.

Since 1921, SOCMA has represented a diverse membership of small, medium and large specialty chemical companies located around the world. Collectively, SOCMA members are key drivers to a successful economy, contributing $24 billion annually to the U.S. GDP. Our members play an indispensable role in the global chemical supply chain by producing intermediates, specialty chemicals and ingredients used to develop a wide range of industrial, commercial and consumer products, essential to the well-being of people everywhere.

I. SOCMA Supports Government Initiatives that Remove Tariffs

As a general principle, SOCMA is supportive of any initiative in any forum that can lead to the removal of tariffs from our trading partners. Our position today is in stark contrast to how this organization was started. SOCMA was originally founded on trade issues to erect tariff barriers to help U.S. companies compete against global competitors, which at the time were mainly German. Since that time the industry, and its supply chain, have become global. Imports and exports are key. For example, eighty percent of respondents to an industry survey conducted last year by SOCMA and United Business Media (UBM) reported that they import raw materials which are not domestically manufactured.[1]

The chemical industry is normally defined as encompassing Harmonized Tariff Chapters 28 through 39. Our members' products, and just as importantly, their customers products predominately fall into chapters 29, 32, 38 and 39.

[1] SOCMA/UBM *Business Outlook Survey*, Question 37, 2014.

The Uruguay round had a profound impact on the world's trading system since it not only knocked down many highly protective tariffs worldwide, it also "gave" us the World Trade Organization (WTO). The WTO, while not without its problems, is vastly better than the General Agreement on Tariffs and Trade (GATT) which was its predecessor. It gives its 161 members a rules-based trading platform as well as a place to go to iron out the invariable disputes that occur whenever money changes hands.

SOCMA played a key role in the Uruguay Round negotiations. SOCMA was instrumental in the creation of the Chemical Tariff Harmonization Agreement (CTHA) that helped flatten out high tariffs in our sector, many of which were a significant factor in hindering our exports. As part of the Uruguay Round Implementation Agreement, SOCMA was also instrumental in convincing the U.S. Government to include into our tariff schedule the Dyes Intermediate Appendix to the Tariff Schedule. This Appendix was added in recognition that U.S. producers of Colorants would be significantly impacted by changes that would be brought on by both this agreement and technology. This appendix, which would benefit by the addition of an up-date procedure, has been useful to help sustain the remaining producers of colorants in the U.S.

In addition, the Uruguay Round helped further define the trade remedies available to our industry. Members have reported that China, India, and other low cost producers have hurt their businesses most significantly.[2] Several of our member companies have successfully prosecuted trade remedy cases, especially against India and China. These efforts were enhanced when China joined the WTO with non-market economy status.

Lastly, the Chemical Tariff Harmonization Agreement became the standard that was used by the United States Trade Representative (USTR) when new countries, especially Russia and China, became WTO members. This helped assure our industry that peak tariffs would be phased down to reasonable levels so that new WTO members could not sustain tariffs in our sector that made it impossible for our exporters to compete. It would be wonderful if long-standing WTO members, such as India and Brazil, could be held to this same standard.

A long list of Bilateral Free Trade Agreements have also been negotiated and then approved under trade promotion authority (TPA). In most instances, the partners to these negotiations did not have significant chemical industries, with Korea and Australia being a notable exception. In these instances SOCMA worked with USTR to be sure that the rules of origin were done in such a way as to be sure that non-parties to the agreement were not beneficiaries of the agreement. SOCMA believes that the Korea FTA is the "gold standard" for Chemical Sector Rules of Origin. It assures both the U.S. and Korea that anything that qualifies is truly produced in the territory. The rules are simple and transparent. They allow for flexibility as this agreement contains both tariff shift and chemical process rules which are sensible for our industry. We anxiously await an opportunity to review the recently completed Trans Pacific Partnership (TPP) to be sure that it also meets this high standard.

[2] SOCMA/UBM *Business Outlook Survey,* Question 14.

II. Effective Trade Agreements Open Markets, Address Trade Barriers, and are Strictly Enforced

SOCMA believes that agreements work when they open markets, address trade barriers, and then are strictly enforced. We applaud the Administration's creation of the Interagency Trade Enforcement Center (ITEC).[3] We hope that this activity will continue to be supported long into the future to help assure that our trading partners abide by their commitments. The majority of our members are small and medium sized businesses. Having government resources and recourse is extremely helpful.

Many of our members are not aware of the full scope of services available despite an increasing emphasis on education. Trade agreements and other trade assistance can be complex and be a barrier to companies. The best agreement only works if it is utilized. SOCMA's recent Business Outlook Survey underscores this point. When asked what preference programs companies utilize, 37 percent cited free trade agreements, 14 percent cited the miscellaneous tariff bill (MTB), 13 percent cited the Generalized System of Preferences (GSP), and 26 percent said they do not use any of these programs.[4] While many said they were not eligible to use these programs, the majority cited that they did not know how to use them, did not know they existed, or perceived them as too time consuming for the payoff. It is critical that this perception be changed because countries that are part of current and future trade agreements are anticipated to be key growth markets for our industry. Additionally, addressing other issues that cause trepidation, such as foreign regulatory compliance, intellectual property, confidential disclosure agreements, customs compliance, and U.S. export laws would help encourage companies to be more involved in the global market.[5]

SOCMA data shows specialty chemical manufacturers plan future growth to new markets. In our Business Outlook Survey last year 37 percent cited expansion to new markets as the major source of growth over the next 1-3 years.[6] Table One, attached to this testimony, lists the regions from which survey respondents anticipate seeing increased revenue. It is worth noting that many of our members manufacture and sell intermediates to domestic companies that may or may not be ultimately exported.

Based on the Census' 2012-2013 Profile of Exporting Companies small and medium sized exporters constituted 23 percent of all small and medium sized exporters (SME). By these numbers SMEs make up 17.5 percent of total chemical manufacturers (who classify themselves

[3] Additional information on the Interagency Trade Enforcement Center (ITEC) is available at http://trade.gov/enforcement/itec/index.asp.

[4] SOCMA/UBM *Business Outlook Survey*, Question 42
[5] SOCMA/ UBM *Business outlook Survey*, Question 36
[6] SOCMA/UBM *Business Outlook Survey*, Question 35.

as 325), but 95.8 percent of identified exporters.[7] For a comparison, in 1987 "small exporters constituted 25 percent of all small companies in the chemical products industry".[8] Eighty percent of SOCMA members are SMEs and a significant number make up the exporters noted above. For these members there have been real benefits of FTAs, not the least of which is enormous cost savings. For example, U.S. small and medium enterprises exported approximately $1.2 billion in chemicals, plastics, and rubber to Korea in 2008 and comprised over 73 percent of all U.S. chemicals firms exporting to Korea in 2008.[9] U.S. SMEs exported nearly $825 million in chemicals, plastics, and rubber to Colombia in 2008 and comprised 77 percent of all U.S. chemicals firms exporting to Colombia in that year. Attached to our submission is a more comprehensive picture of the impact of the most recently passed trade agreements, Korea, Colombia, and Panama.

III. The U.S. Chemical Industry Has Benefitted from Free Trade Agreements Negotiated Under Trade Promotion Authority

Trade agreements negotiated under TPA have helped create a more open economy which the industry has benefited from not only because of reduced tariff barriers abroad but also because foreign direct investment (FDI) pours into open economies. It is interesting to note that 34 percent of foreign direct investment goes into manufacturing. Twenty-six percent of this investment goes into the chemical industry. This investment has helped to support our chemical industry.[10] Industries that export are far more resilient than non-exporters, especially after the recession. As noted in a Department of Commerce report on the subject, the chemical industry is one of "several industries, [where] export growth has driven a large portion of overall growth in output. The transportation, chemical, and machinery manufacturing industries have seen more than 30 percent of their post-recession growth come from exports."[11]

[7] U.S. Census Bureau, *Profile of U.S. Importing and Exporting Companies, 2012-2013*, Exhibit 7a: https://www.census.gov/foreign-trade/Press-Release/edb/2013/exh7a.pdf

[8] U.S. Department of Commerce, Office of Trade and Economic Analysis, *A Profile of United States Exporters: Initial Findings from the Exporter Data Base*, September 1993. https://www.census.gov/foreign-trade/aip/edbrel87.pdf

[9] Office of Industry Analysis, International Trade Administration, Department of Commerce, *The U.S.-Panama Trade Promotion Agreement: Opportunities for the US Chemicals Sector*: http://trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_002782.pdf
The U.S.- Korea Trade Promotion Agreement: Opportunities for the U.S. Chemicals Industry: http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_002592.pdf
The U.S.- Colombia Trade Promotion Agreement: Opportunities for the U.S. Chemicals Industry: http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_002619.pdf

[10] US Department of Commerce Economic and Statistics Administration, *Manufacturing Since the Great Recession*, June 2014: http://www.esa.doc.gov/reports/manufacturing-great-recession

[11] US Department of Commerce Economic and Statistics Administration, *Manufacturing Since the Great Recession*, June 2014, page 5.: http://www.esa.doc.gov/reports/manufacturing-great-recession

Lastly, since the chemical industry truly is international in scope, a large percentage of the tariffs paid in the chemical sector, perhaps 50 percent or more, are paid on "intercompany transfers." Our industry supplies the building blocks that make it possible for every other sector to thrive. It is therefore very important that the world has a viable, thriving, efficient chemical industry. Tariffs and other barriers to free trade have a serious impact on such efficiency. While the Doha

Round is obviously struggling, there are other "good things" that continue to come out of the WTO, including the recently concluded information technology agreement (ITA) expansion and the Trade Facilitation Agreement (TFA) that is about to be implemented. These two agreements, which have been negotiated under residual Uruguay Round Authority as well as several others that are underway, could not have happened without TPA, since without TPA, the Uruguay Round could not have been concluded.

SOCMA has great hope for the TTIP negotiations which also now fall under renewed Trade Promotion Authority. A free trade agreement between the U.S. and the EU has been a long standing goal of our association. Contrary to popular opinion, the EU 28 is actually the U.S.'s largest trading partner. The US has a significant negative trade balance with the EU in our sector. It is hoped that a carefully negotiated agreement that knocks down the myriad of non-tariff barriers that the EU has erected so carefully over the decades can put us on the road to parity, if not surpluses.

Thank you for this opportunity to participate in this hearing.

Table One: Regions in Which U.S. Specialty Chemical Companies Anticipate Increased Revenue

Value	Count	Percent
North America	105	81%
Europe	60	47%
China	48	37%
Japan	31	24%
India	22	17%
Brazil	16	12%
Middle East/Africa	15	12%
Mexico	14	11%
Russia	6	5%
Turkey	3	2%
Other Latin America, please specify (named: Chile, Peru, all LA)	4	3%
Other Asia, (named: Korea, Taiwan, Malaysia, Indonesia, Thailand, SE Asia)	8	6%
Other region not mentioned above, please specify	0	0%

Statistics	
Total Responses	129

Source: SOCMA/UBM Business Outlook Survey, 2014, Question 33

SOCMA
Society of Chemical Manufacturers & Affiliates

American Chemical Manufacturing & Free Trade Agreements with Korea, Colombia, and Panama

The Society of Chemical Manufacturers and Affiliates (SOCMA) strongly supports free trade agreements with South Korea, Colombia, and Panama.

Why a FTA with Korea Matters:

- Korea is the 7th largest market for U.S. chemicals exports; failure to pass the U.S.-Korea Trade Agreement could enable exporters from the EU and other countries to gain key advantages over U.S. exporters to Korea.
- From 2008 to 2010, approximately $892 million in duties were paid on U.S. chemical products to Korea, money that could be spent to invest in R&D, technology and process improvements.
- The tariff for EU chemical producers will be 0.7%, whereas the current average for U.S. producers ranges from 6.1% to 50%. More than 82% of U.S. chemicals exports to Korea would receive duty-free treatment within three years of implementation of the U.S.-Korea Trade Agreement. The chemicals sector accounted for $5.4 billion in U.S. exports to Korea over 2008-10 (average) or nearly 18% of total U.S. industrial exports to Korea.
- U.S. small and medium enterprises (SMEs) exported approximately $1.2 billion in chemicals, plastics, and rubber to Korea in 2008 and comprised over 73% of all U.S. chemicals firms exporting to Korea in 2008.

Why a FTA with Colombia Matters:

- Colombia is the 14th largest market for U.S. chemicals exports.
- The chemicals sector accounted for nearly $2.5 billion in U.S. exports to Colombia over 2008-10 (average) or 27.3 percent of total U.S. industrial exports to Colombia.
- U.S. SMEs exported nearly $825 million in chemicals, plastics, and rubber to Colombia in 2008 and comprised 77% of all U.S. chemicals firms exporting to Colombia in that year.
- More than 86% of U.S. chemicals exports to Colombia would receive duty-free treatment immediately upon implementation of the U.S.-Colombia Trade Promotion Agreement; Colombian chemicals tariffs currently average 7.6%, ranging up to 20%.
- Colombia signed trade agreements with both the EU and Canada in November, 2008.
- Under the EU FTA, chemicals exporters would enjoy a 3.8% average tariff advantage over U.S. exports. However, if the U.S.-Colombia FTA is implemented at the same time, U.S. exports would have an immediate 1.1% average tariff advantage over the EU.

Why a FTA with Panama Matters:

- The chemicals sector accounted for $254 million in U.S. exports to Panama over 2008-10 (average) or 11% of total U.S. industrial exports to Panama.
- Estimated duties paid on exports of U.S. chemical products to Panama from 2008 to 2010 were over $34 million.
- Almost 80% of U.S. exports of chemical products to Panama would receive duty-free treatment immediately upon implementation of the U.S.-Panama Trade Promotion Agreement.
- Panama's chemical tariffs average 3%, ranging from 0% to 15%. Almost 80% of U.S. chemicals exports to Panama would receive duty-free treatment immediately upon implementation of this Agreement.
- Since the conclusion of negotiations with the United States, Panama has concluded separate negotiations with Canada and the EU. The EU will see increased regional opportunities in Central America through lower tariffs, increased government procurement market access and elimination of certain non-tariff barriers. Panama also concluded free trade agreement negotiations with Canada in May 2010, which eliminate tariffs immediately on 90% of Canada's exports.
- EU chemicals exporters will immediately enjoy an average tariff of 2% upon implementation of the EU-Central America Association Agreement, while U.S. exporters will face an average MFN tariff of 3% until implementation of the U.S.-Panama Trade Promotion Agreement.

Source: US International Trade Administration

For more information about the impact of trade on the chemical manufacturing please contact Justine Freisleben at 202-721-4155 or freislebenj@socma.com.

About SOCMA

SOCMA is the only US based trade association dedicated to the batch, custom and specialty chemical industry. We have represented a diverse membership of small, medium and large chemical companies since 1921, making us the leading authority in the sector. SOCMA member companies are located around the world and encompass every segment of the industry. In the U.S., SOCMA members manufacture 50,000 products annually that are valued at $60 billion dollars. They operate more than 2,000 manufacturing sites and employ more than 100,000 workers.