cefic

CHEMICAL CONNECTIONS

How opening up chemicals trade can boost growth and jobs in Europe

Contents

Introduction

Chemicals are vital to our wellbeing. They help us grow more abundant crops and preserve our food. In the form of plastics, rubber and foam, they help make our homes, factories and vehicles clean and comfortable. They enable us to make safer, lighter, cheaper, more durable goods and structures. And they help us to extract energy and use it efficiently.

Trading chemicals around the world stimulates competition, provides an incentive to develop new markets through innovation and stimulates production efficiency. But above all, it helps to improve the quality of human life.

Most chemical products are intermediates, used in the production of other goods. The chemical industry underpins virtually all sectors of the economy, and its strategies impact directly on downstream chemicals users. The big industrial users of chemicals are rubber and plastics, construction, pulp and paper, and the automotive industry. Nearly two-thirds of EU chemicals are supplied to the EU industrial sector, including construction. More than one-third of chemicals go to other branches of the EU economy such as agriculture, services, and other business activities. The rise of global value chains gives all countries an interest in keeping chemical import duties low. Otherwise expensive inputs erode the competitiveness of their farmers and of their industries, especially in electronics, automotive and textiles.

Since 90% of GDP growth will take place outside Europe in the next decade, international trade should drive growth of the European chemical industry, bolstering sales and jobs. But barriers need to be stripped away. Despite some multilateral trade deals within the GATT framework and some bilateral agreements between the European Union and its partners, much remains to be done in terms of opening markets. Our industry also needs better access to affordable energy and raw materials and greater harmonisation of standards and regulations around the world.

Growth in post-recession Europe remains low, hampered by mature markets and an ageing population. Between 2014 and 2050 the world's population will surge from 7.2 billion to 9.5 billion, according to the United Nations. But over the same period, Europe's total population will decline to 709 million, just 7.4% of the total. Meanwhile, Asia's population will grow to 5.1 billion, 54% of global citizens, and Africa will be home to 2.3 billion – twice as many as today, and a quarter of those on our planet. World chemicals production is set to almost double from €3.4 trillion in 2013 to €6.3 trillion in 2030. But most of this growth will be outside the EU: If Europe's industry is to grow and share in the rewards, Europe must reinforce its role as a chemical exporting region.

Given an appropriate domestic and international policy framework, the European chemical industry has strong potential to benefit from growth in global chemicals demand and to help ensure that by 2050 over 9 billion global citizens live well, within the resources of the planet. So the industry firmly supports the European Commission's endeavours to underpin the internationalisation of European companies and further liberalise trade – preferably at multilateral level through the World Trade Organisation (WTO) or via bilateral or regional trade agreements such as the Transatlantic Trade and Investment Partnership (TTIP) or proposed EU-Japan Free Trade Agreement.

Despite domestic and international economic uncertainty, EU chemical industry exports reached €139 billion in 2013, delivering an EU chemicals trade surplus of nearly €49 billion.

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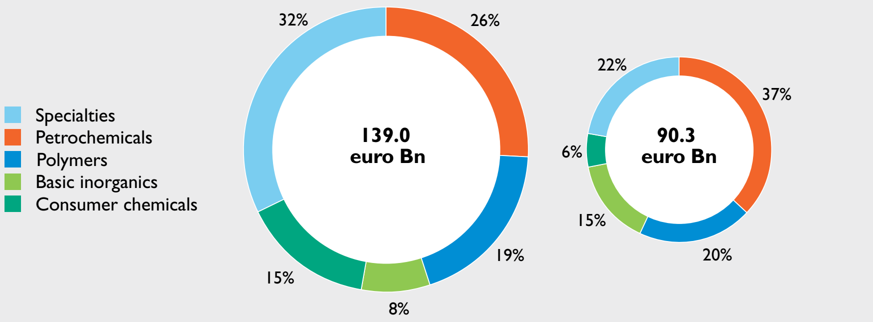
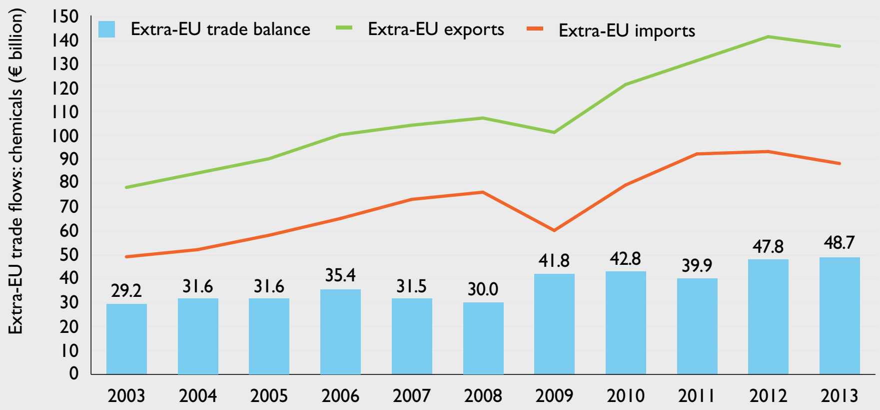
If Europe's industry is to grow and share in the rewards, Europe must reinforce its role as a chemical exporting region.

EU chemicals trade flows with third countries by sector (% of total)



Sources: Eurostat (Comext) and Cefic analysis

EU chemicals trade flows with third countries (€ billion)



Source: Eurostat (Comext)

2013 EU chemical trade surplus
=
€48.7 billion

To spur EU chemical industry growth with third countries:

- Open world markets to boost EU economic growth
- Reinvigorate WTO talks
- Deepen bilateral agreements
- Agree global standards

Seeking a multilateral deal within the World Trade Organisation (WTO) framework

The chemical industry is a leading exporter of high value-added products. In this context, Cefic strongly supports multilateral chemical trade liberalisation under the banner of the World Trade Organisation.

By its nature, the chemical industry benefits from liberalised trade. Its products are hugely diverse, innovative, widely used and its plants and employees are located worldwide.

Multilateralism is the best option

Because international trade is critical to the success of the European chemical industry, improving trading opportunities for chemicals can make the industry more competitive. The successful Uruguay round of multilateral trade talks in 1994 achieved the Chemical Tariff Harmonisation Agreement (CTHA) and Pharmaceutical Agreement, which harmonised chemical import duties at just 6.5%, 5.5% or 0%. Cefic then started advocating a new, ambitious and pro-active agenda. In harmony with other leading chemical producing countries, the EU chemical industry called for the WTO's Doha Development round of talks to eliminate or substantially reduce chemical import duties in all countries that have a viable chemical industry. The successive extensions of the CTHA to new members of the WTO and updates to the Pharmaceutical Agreement have delivered tangible benefits for the industry as well as for consumers worldwide. Consumption of chemicals is growing most strongly in emerging and developing economies and in global value chains. The goal of the Doha round should be to substantially reduce or eliminate tariffs for intermediate products including chemicals to help the development of these economies.

Following the November 2014 approval by the WTO General Council of the Bali Package, there is now a renewed commitment to the multilateral system. The way is now clear to design a new post-Bali Doha work programme – provided all WTO members ratify the Trade Facilitation agreement. Lowering tariffs for industrial goods should be at the heart of this programme, with scope for even greater liberalisation in sectors such as chemicals.

The European chemical industry is being increasingly harmed by measures in other regions including dual pricing, export restrictions and export taxes. The chemicals sector is especially concerned about discriminatory practices regarding ethylene feedstock, gas, palm oil and important minerals such as yellow phosphorous, fluorspar or rare earths. It therefore welcomed rulings by the WTO Dispute Settlement Body that export duties and export quotas applied by China breached its WTO obligations. Cefic supports the strong stand the European Commission takes against breaches of WTO obligations and the Commission's market access strategy.

Environmental goods liberalisation: not the best deal for the environment

Broad based elimination of tariffs on all manufactured goods and their intermediate components would give a bigger boost to the world economy than the narrow approach currently being pursued by some WTO members for environmental goods. Leading industrialised countries expressed strong interest in a global agreement to eliminate tariffs on chemicals. Access to all WTO markets and improved integration in global value chains would provide substantial benefits to chemical producers and users in developed and emerging economies. But the proposed environmental goods deal would liberalise trade in only a limited list of end-products. We need a much more ambitious agenda for liberalisation of trade in industrial goods, many of which help the environment. We believe the initiative to eliminate tariffs on environmental goods is ill-founded, flawed and impractical. It is hard to define environmental goods and any definition appears arbitrary. Why exclude goods such as chlorine, which saves lives every day, or agricultural goods such as bioethanol?

Ten years of stalemate in Geneva shows that efforts to free up trade in 'green' goods should not substitute for efforts to liberalise trade. We should focus on achieving a multilateral, all-embracing reduction or elimination of industrial tariffs. Cefic also hopes that an EU-US TTIP deal could reinvigorate WTO talks on reducing non-tariff barriers, especially since the agreement is likely to set common regulatory standards that will probably subsequently be adopted more widely.

Instead of seeking a narrow 'plurilateral' deal on so-called environmental goods, the WTO should focus on freeing up trade in all goods, which would deliver many more and better benefits for the environment.

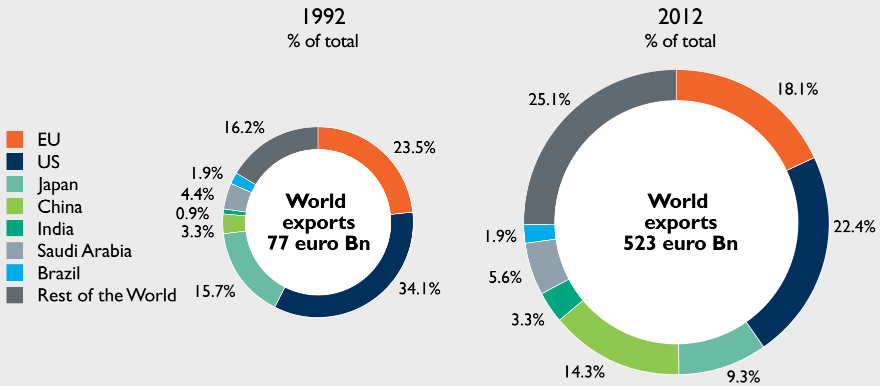
Improving Trade Defence Instruments

Free trade requires fair trade and hence effective instruments against dumping and subsidies. These must be used for their proper purpose, not for protecting uncompetitive enterprises. EU Trade Defence Instruments (TDIs) not only comply with the WTO anti-dumping agreement but are a model of their kind, containing provisions which go beyond WTO requirements, such as the lesser duty rule and the Union interest analysis, which gives balanced consideration to all EU interested parties.

Without progress in multilateral trade negotiations, there should be no unilateral weakening of European Trade Defence Instruments. EU TDI rules are complex, and we believe there is room for improvement in some areas. In particular, we believe it is essential to introduce TDI provisions to correct distortions caused by unfair practices in trade in raw materials. In 2013, the European Commission proposed modernising EU TDIs. Cefic welcomed proposals to abolish the lesser duty rule – which has a dampening effect on the level of duties imposed – in cases where raw material prices are distorted or subsidised. This provision is sorely needed because some countries continue to deploy unfair practices such as export restrictions, dual pricing, and subsidies which harm both upstream raw materials trade and downstream product markets.

With EU economic growth weak and little evident progress on trade defence rules in the Doha Development Round, any unilateral move could negatively influence the EU economy. In the short term, industry needs the lowest possible prices for inputs. But in the long term, its goal is to equally ensure these goods will always be available at a fair price and quality.

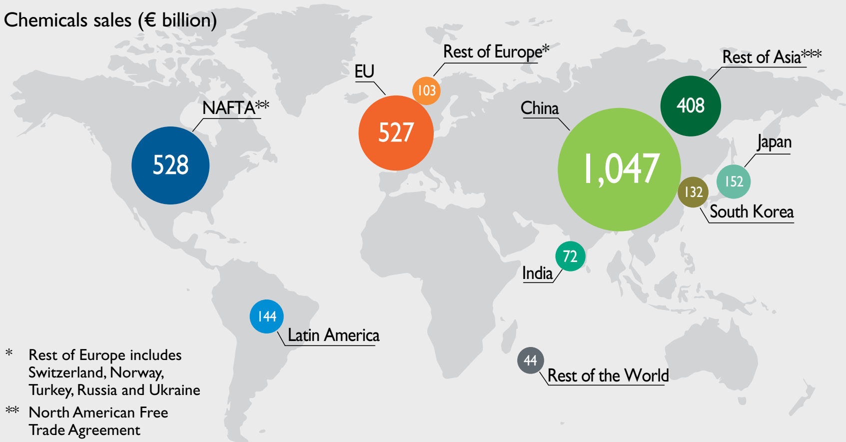
Chemical exports by country of origin (% of total)



Source: Oxford Economics/UN Comtrade
Note: Excludes intra-EU trade

World chemicals sales in 2013 are valued at €3,156 billion. The European Union accounts for 16.7% of the total

Chemicals sales (€ billion)



* Rest of Europe includes Switzerland, Norway, Turkey, Russia and Ukraine
** North American Free Trade Agreement
*** Asia excluding China, Japan, India and South Korea

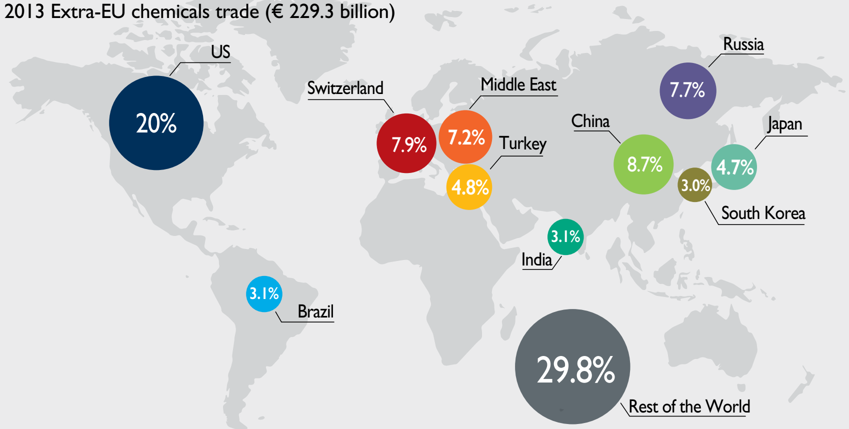
Source: Cefic Chemdata International (2014)

Doing bilateral deals

Because the Doha round has made such slow progress, the EU and other regions and countries have sought to liberalise world trade via bilateral Free Trade Agreements (FTAs). Cefic considers that FTAs complement the search for a multilateral deal and offer opportunities to achieve agreements in areas that are not yet or not sufficiently addressed by the WTO.

Top 10 EU chemical trade partners account for 70% of trade (exports + imports)

2013 Extra-EU chemicals trade (€ 229.3 billion)

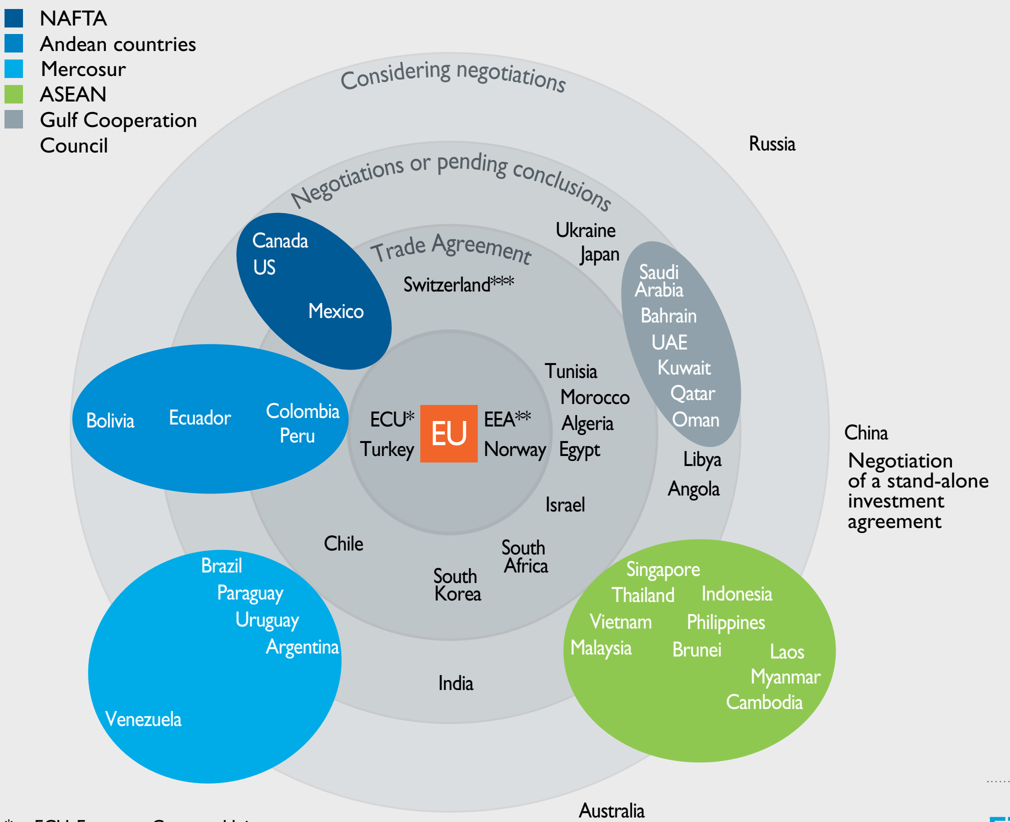


Sources: Eurostat (Comext) and Cefic analysis

These bilateral agreements should aim to:

- Cover all elements of international trade and investment, include all products and economic sub-sectors and resolve non-tariff barriers.
- Reduce or eliminate tariffs whilst simultaneously tackling non-tariff barriers. Reduced tariffs must not be countered with new non-tariff barriers such as regulatory measures, dual pricing, increased red tape or disguised barriers to entry.
- Draw up mandatory standards for treatment of foreign investments and investors in host countries. A dedicated chapter should eliminate barriers to new investments and expansion of existing projects, promote fair and transparent rules and provide greater predictability and stability to investor and investment, protecting against expropriation.
- Support simple and flexible rules of origin based on "tariff shift" and/or where value is added for determining whether the transformation of a product has been substantial enough to confer origin. Currently under FTAs, only 60-70% of products benefit from preferential tariffs. This under-use is caused by complex and restrictive rules of origin. But in the case of the TTIP now being negotiated, for every percentage point of non-use of preferential tariffs, the loss would be €15 million.
- Protect intellectual property which is vital not only to innovation and trade but also to the competitive strength of European chemical producers. If companies have to provide confidential business information to government authorities, the FTA should ensure it is adequately safeguarded from unauthorised disclosure by authorities.
- Include an enforceable dispute resolution mechanism. Any effective comprehensive agreement must include a binding arms-length disputes procedure, and both parties must agree to abide by its rules and implement its decisions in a timely manner. Far-reaching bilateral agreements with a big economic impact such as TTIP should contain mechanisms to enhance regulatory cooperation.

Compounding trade deals in key EU markets



* ECU: European Customs Union
** EEA: European Economic Area
*** Switzerland: several bilateral market access agreements

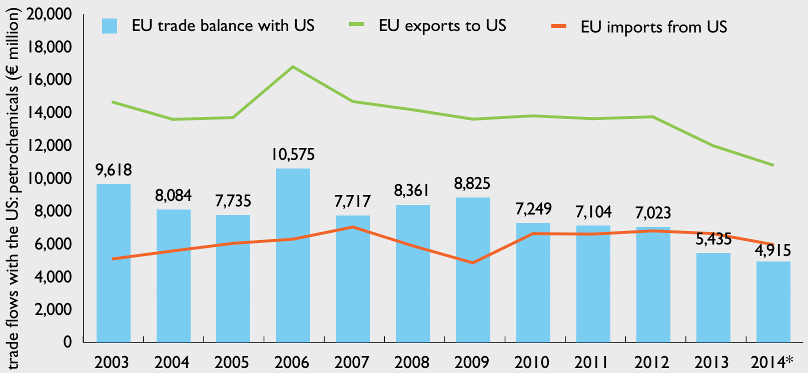
FTA key features:

1. Comprehensive and meaningful agreements
2. Elimination of tariff and non-tariff barriers
3. Elimination of barriers to exports
4. Guarantee of investment protection
5. Simple, flexible rules of origin
6. High protection of intellectual property rights
7. Inclusion of a dispute resolution procedure

The United States: grasping an historical opportunity

The US is by far the EU's biggest trading partner in chemicals. It buys €26 billion of EU exports, nearly 20% of the EU chemicals total every year, whilst providing €20 billion of EU imports. Each region is also the other's largest chemical investor. According to several impact studies, a deep and comprehensive agreement would bring the greatest benefits.

EU petrochemicals trade with the US affected by shale gas boom (€ million)



* Estimated based on Jan-Oct 2014

Source: Eurostat (Comext)

Negotiations on a radical, far-reaching trade agreement, known as the Transatlantic Trade and Investment Partnership (TTIP) began in July 2013 and are ongoing. TTIP can help reduce the cost of trading with the US in various ways. A deal would help companies to compete more effectively in increasingly globalised and competitive chemicals markets. Many chemical companies operate on both sides of the Atlantic, and a large part of this chemical trade occurs via intra-company trade. Chemical import duties are low and most add to the cost of imports, rather than providing protection to those operating in domestic markets.

Removing remaining import duties would save chemical companies €1.5 billion a year – benefits that will flow through the entire manufacturing value chain and ultimately to consumers. Regulatory cooperation on chemicals can reduce the costs for both authorities and companies while maintaining high safety, health and environmental standards. The benefits encompass economic gains both from reduced costs and increased trade and investment flows. Costs could be saved by minimising duplicative regulatory requirements, promoting work-sharing across governments and public authorities and increasing the efficiencies between the two regulatory systems. If the US and European chemical industries operate to common standards, e.g. regarding classification and labelling, these could be adopted elsewhere, further benefiting industry, especially SMEs, on both sides of the Atlantic.

Transatlantic trade flows are expected to change considerably in the next five years because the US shale gas boom has triggered a massive build-up of new chemicals production capacity there. Any deal therefore needs to provide for strong provisions regarding access for EU companies to US energy and feedstock. This could help improve the competitiveness of the European chemical industry by narrowing the gas price gap with the US. This is especially important for sectors such as petrochemicals and polymers which have already lost global export competitiveness in the past decade. For these sectors, gas can account for as much as 60% of operating costs, being used both as a feedstock and to provide energy for crackers.

Although the European chemical industry now uses half as much energy per unit of output as it did 20 years ago, the current huge gas price difference with the US will have a big impact on European output. Price differentials partly arise from poor integration of the European gas market. A strong European Energy Union, benefiting from an integrated distribution system, exploitation of domestic shale gas and the development of LNG imports could help reduce the gap between EU and US energy prices.

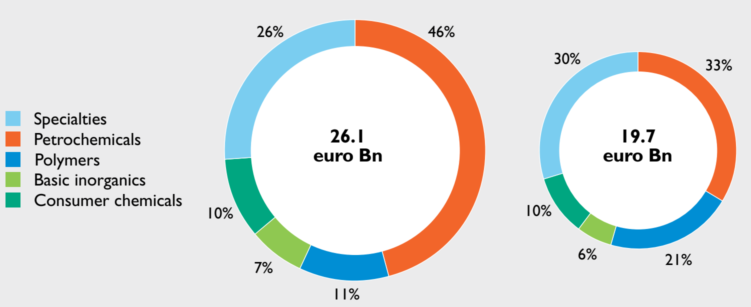
To become a global standard, TTIP must include an investor-state dispute settlement (ISDS) system to protect overseas investments. This will promote international investment flows and ensure fair resolution of any conflicts, whilst preserving the democratic and legitimate rights of host states to safeguard the environment and interests of their citizens.

The US is the world's biggest producer of bioethanol, making around 54% of world production in 2013. The European Commission promotes the development of the bio-economy, but progress is hampered by uneven access to renewable raw materials. The European chemical industry seeks access to renewable feedstocks at competitive prices. Today these renewable feedstocks are mainly produced outside the EU and subject to high import duties. We need open and fair access to renewables at world market prices.

This could be achieved by removing EU import duties on bioethanol, sugar and other 'green' feedstock when used for chemical production. This would help unleash the huge opportunity to further develop the EU's bio-economy.

Finally, current rules of origin are outdated and need to match today's market reality of global value chains spanning multiple regions. They must be as simple and flexible as possible so that small and medium-sized enterprises (SMEs) can easily benefit.

EU chemicals trade flows with the US by sector (% of total)

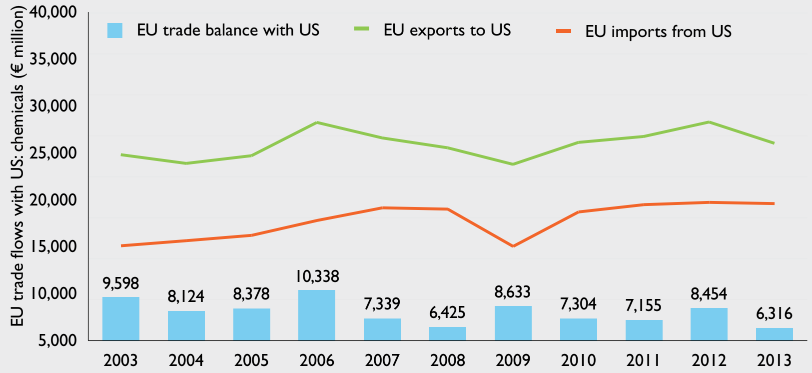


Sources: Eurostat (Comext) and Cefic analysis

Average ethylene cash cost in the EU versus the US (US$/ton)

Source: ICIS

EU chemicals trade flows with the US (€ million)



Source: Eurostat (Comext)

To spur EU chemical industry growth with the US:

- Complete elimination of chemical tariffs
- Develop regulatory cooperation
- Improve raw material and energy access
- Agree user-friendly rules of origin

Japan, an underestimated engine for growth

In 2013, €152 billion of chemicals were sold in Japan, making it the world's third-biggest market, but with €11 billion of EU-Japan imports and exports, it does not figure in the top six trading partners for the EU chemical industry. Facilitating trade and investment in and by Japan, which invests 4% of chemical revenues in R&D compared with 1.6% in the EU, promises renewed growth and competition.

Negotiations for an EU-Japan Free Trade Agreement were launched in March 2013, and are proceeding. An FTA with Japan not only has the potential to enhance market access and regulatory coherence between the EU and Japan, but it will also pave the way for other bilateral and multilateral negotiations with and between Asian economies. It can also contribute to broader acceptance of world standards by Japan, where many barriers stem from stricter Japanese standards. And thirdly, an agreement with Japan could reduce any handicaps suffered by European companies arising from the proposed Trans-Pacific Partnership (TPP) agreement to which the EU will not be a party.

An EU-Japan deal should aim at complete elimination of tariff and (particularly) non-tariff barriers. These cause immense red tape and include excessive regulations – even though both economies repose upon principles of risk and science, and respect international best practices and standards. Differing import requirements for bovine gelatine, maximum residue levels in products, and definitions of polymers currently act as barriers to EU firms keen to sell in Japan.

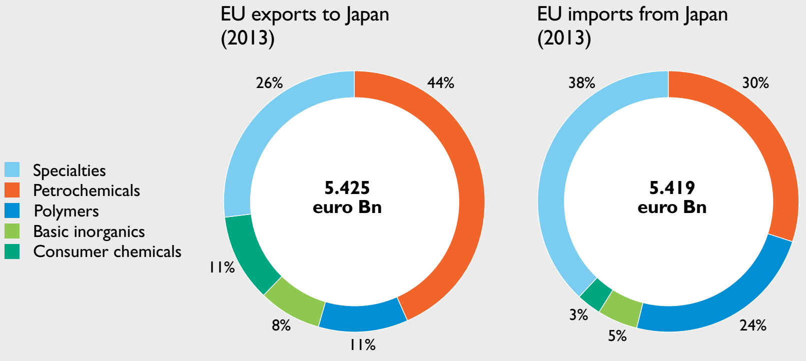
The FTA should usher in a regulatory system based on international best practice and standards, underpinned by good cooperation between governments and stakeholders. It must recognise results of tests in accordance with internationally-recognised OECD guidelines, streamlining harmonisation of regulatory requirements.

Value chains in the chemical industry in the EU and Japan are spread broadly both within regions and across the globe. So we need a simple, flexible and transparent approach to rules of origin for chemicals, to ensure corporate administrative costs do not grow, and to ensure the benefits of any deal are maximised.

Finally, the agreement should prohibit dual pricing and export taxes and foster cooperation to eliminate other restrictions on raw materials, whilst ensuring a robust intellectual property rights regime that provides better protection than the WTO's 'TRIPS' provisions.

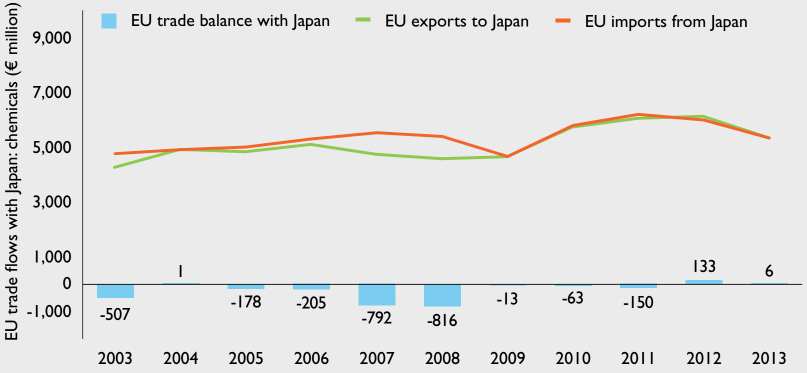
An EU-Japan deal should aim at complete elimination of chemical tariffs. Non-tariff barriers in chemicals should be addressed by Japan, aligning to world standards.

EU chemicals trade flows with Japan by sector (% of total)



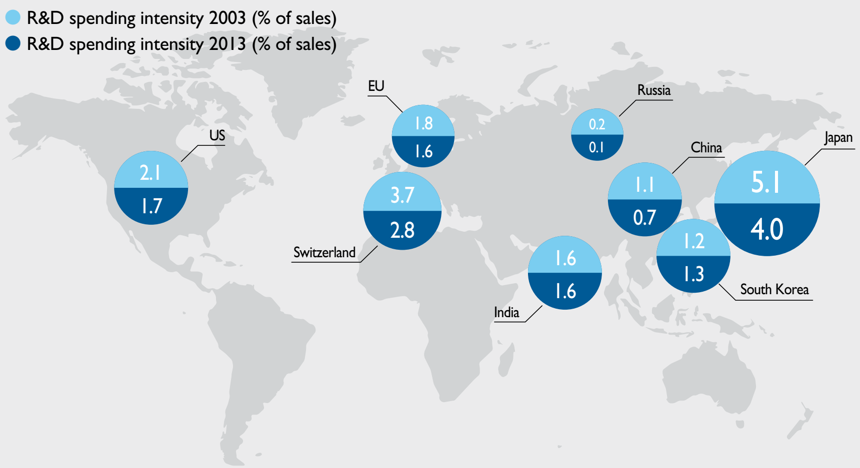
Sources: Eurostat (Comext) and Cefic analysis

Chemicals: EU trade flows with Japan (€ million)



Source: Eurostat (Comext)

Chemical R&D spending intensity by region



Sources: Cefic Chemdata International (2014) and Cefic analysis

To spur EU chemical industry growth with Japan:

- Accept international standards
- Streamline regulatory processes
- Complete elimination of chemical tariffs
- Simplify rules of origin
- Promote strong IP protection

The new route to India?

India is the world's second-largest emerging market, and the EU is playing a key role in that transformation as India's biggest source of foreign direct investment. EU-India trade in goods and services accounted for nearly €73 billion in 2013, of which €7.2 billion was in the chemicals sector.

Negotiations for an EU-India Free Trade Agreement started in 2007 and have made substantial progress. Discussions now centre on resolving outstanding issues, including improved market access for some goods and services, government procurement and geographical indications, and sustainable development. There are huge opportunities, and an EU-India FTA should reflect the development ambitions of European and Indian businesses and consumers.

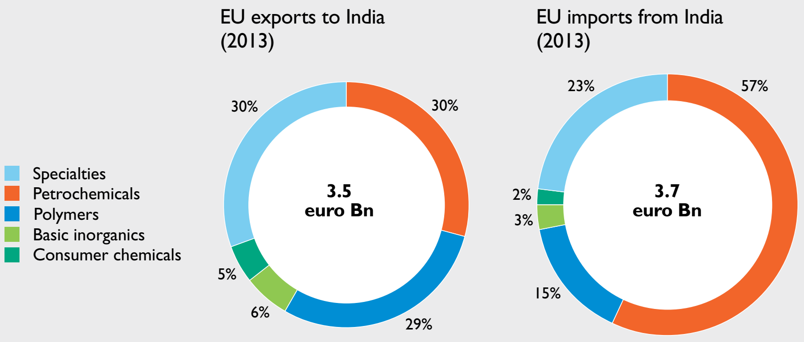
Cefic advocates an ambitious and comprehensive Free Trade Agreement, eliminating all chemical tariffs and removing all trade barriers including export restrictions and export duties on raw materials. India typically applies tariffs of 7.5% or more on chemicals, which harms both economies. Non-tariff barriers such as double-testing of products, investment protection, burdensome licensing and labelling requirements, and failure to comply with international standards prevent the EU and India achieving the full commercial potential of their chemical trade.

Ensuring effective protection and enforcement of intellectual property rights is essential to give investors confidence and foster innovation. The trade agreement should adhere to global standards outlined by the World Intellectual Property Organisation (WIPO). Failure to protect regulatory data will significantly reduce incentives for innovation, commercialisation and trade of products and technologies. India recently declared that anything imported into, but not produced in India can be required to obtain a licence. This is not in compliance with the WTO-administered Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement. These issues have to be addressed before the conclusion of an EU-India FTA.

India also needs to make it easier to invest by lifting restrictions on foreign direct investment (FDI). And it must reduce the administrative blur, corral its unpredictable taxation regime and improve infrastructure. Removal of these obstacles would generate important gains for both parties. We also believe it is important to set out clear rules for public procurement and to remove local content requirements.

An agreement with India has to significantly improve the conditions for trade and investment. It should not be a weak compromise, but must improve protection for intellectual property, notably for pharmaceuticals and agro-chemicals.

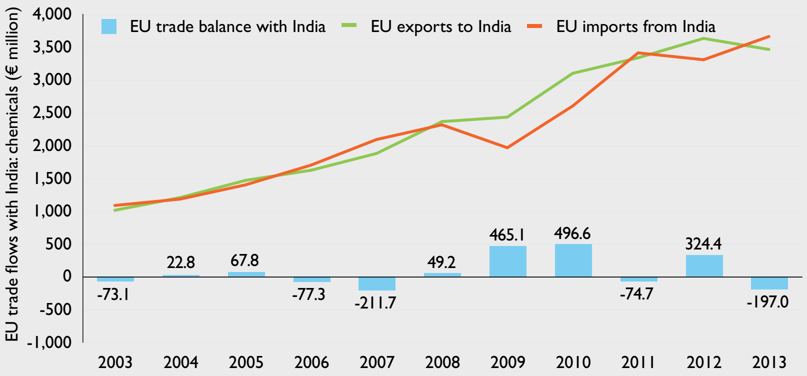
EU chemicals trade flows with India by sector
(% of total)



Sources: Eurostat (Comext) and Cefic analysis

EU chemicals trade with India tripled in value during the last decade (€3.5 billion of exports, two-thirds in petrochemicals and polymers). But this makes up only 3% of EU chemical exports and is modest compared to potential trade between the two economies.

Chemicals: EU trade flows with India
(€ million)



Source: Eurostat (Comext)

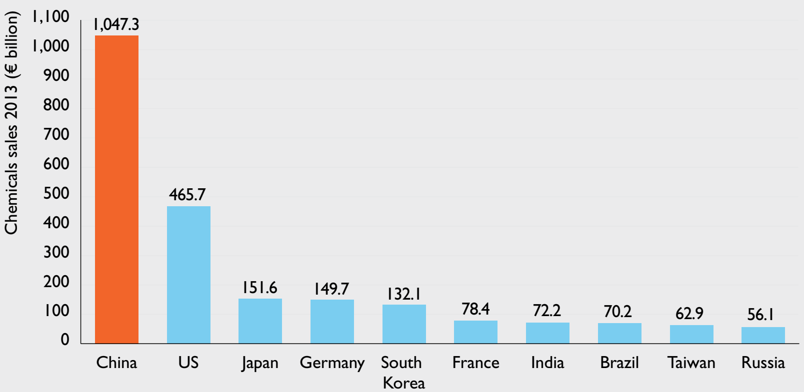
To spur EU chemical industry growth with India:

- Eliminate chemical tariffs
- End unjustifiable entry barriers
- Protect and enforce IP rights to international standards
- Remove barriers to investments

China: from dwarf to giant

Back in 2003, China's chemical sales were around €116 billion, 8.7% of the global total. That was far behind the top three, i.e. EU, US and Japan. A decade later, China had become world leader in chemical output by a wide margin, with annual sales of €1,047.3 billion, a 33.2% share of the global total and far ahead of the EU's €527 billion sales and 16.7% global market share.

Chemicals sales 2013 by country (€ billion)



Source: Cefic Chemdata International (2014)

Today China is the EU's second-biggest chemicals trading partner, accounting for 9% of EU exports.

China has become the most important growth market for global chemical companies and a major investment location. While Chinese chemical companies are gradually increasing their focus on specialty chemicals, the country will remain a major importer of commodity chemicals for some time to come. Chinese expansion does not necessarily imply Europe loses out. Rather, there are wins for both, and China offers many opportunities.

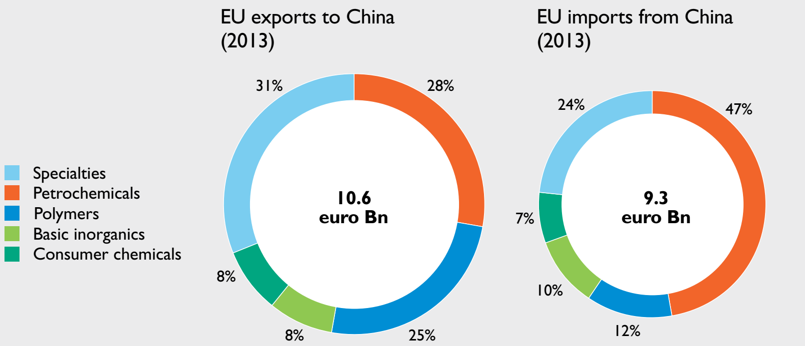
Fair market access is a priority. We strongly believe that ongoing talks about an investment agreement should ensure companies are treated equally, irrespective of their nationality, ownership, type or size. China must honour the commitments it made when it joined the WTO in December 2001. In addition, China now being the global leader in chemical production, it should also engage in the sectoral trade liberalisation talks in WTO.

Cefic welcomes WTO panel rulings in 2013 and 2014 that China's export restrictions on raw materials breach WTO rules. We regret that active pharmaceutical ingredients (APIs) continue to face discriminatory entry-barriers, contrary to China's international commitments. And we have also been regularly confronted with dumped imports originating in China. Though these are only a minute fraction of total chemical imports from China, anti-dumping measures restore a level playing field for the businesses concerned.

China would also facilitate the growth of its chemical industry and its trade with the EU if it accepted international standards for hazardous chemicals and addressed the practical difficulties that the industry experiences with the introduction of new substances on the Chinese market.

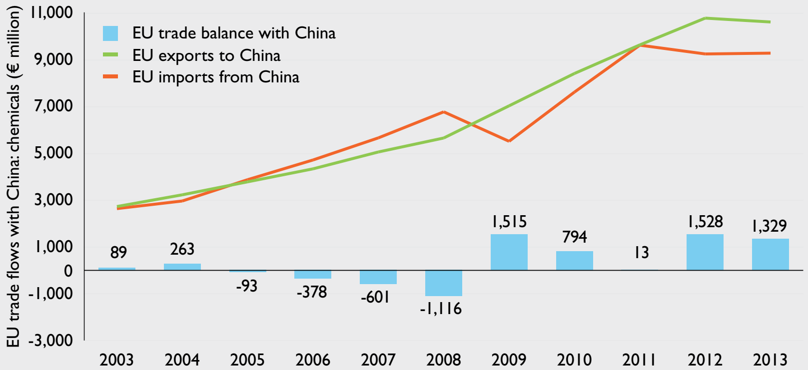
China's lack of market economy status (MES) is one of the country's principal points of contention with the EU. For the purpose of anti-dumping investigations, China's WTO accession protocol allows WTO members to treat China as a 'non-market economy' until 2016. Beijing considers this issue a serious obstacle to the development of closer commercial relations with Europe. Our view is that China does not yet meet the criteria for receiving MES but that convergence is a gradual process. The ongoing debate over whether to grant MES is intensified by differences in interpretations of article 15 of China's accession to the WTO.

EU chemicals trade flows with China by sector (% of total)



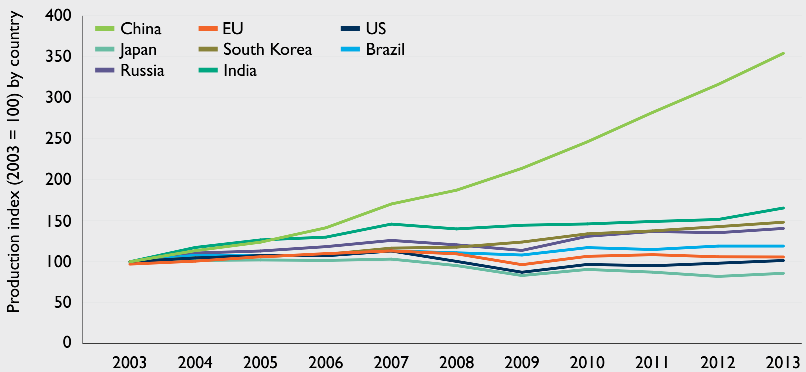
Sources: Eurostat (Comext) and Cefic analysis

Chemicals: EU trade flows with China (€ million)



Source: Eurostat (Comext)

International comparison of production growth



Sources: Cefic Chemdata International (2014) and Cefic analysis

To spur EU chemical industry growth with China:

- Comply with its WTO commitments
- Ensure fair competition
- Improve access for and protection of investors

Gulf Cooperation Council (GCC)

In 2013, the Gulf Cooperation Council was the fifth largest trade partner of the European chemical industry, with a trade flow of €11 billion. Thanks to sustained economic growth, since January 2014 the GCC countries no longer qualify under the Generalised Scheme of Preferences (GSP) that allows preferential tariffs for the least developed countries. They are subject to full import duties when exporting chemicals to the EU.

This matters because thanks to their huge output of low-cost fossil fuels, GCC members are massive exporters of energy-intensive petrochemicals and polymers.

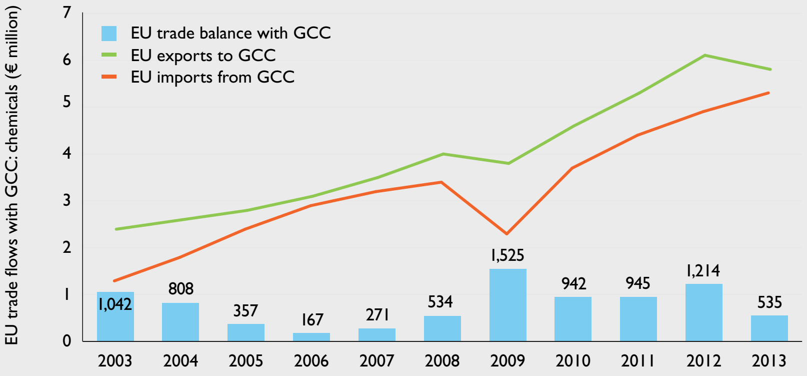
Saudi Arabia joined the other five GCC member states (United Arab Emirates, Bahrain, Oman, Qatar and Kuwait) as a member of the WTO in 2005. Cefic believes that as WTO members, GCC states and especially Saudi Arabia should renounce unfair trading practices such as dual pricing and export duties, which are contrary to the spirit of the WTO. Cefic considers that the supply of raw materials by a state or its agencies to a domestic producer at prices significantly below international benchmarks constitutes an unfair subsidy.

Negotiations for an EU-GCC Free Trade Agreement were suspended by the GCC in 2008, though informal contacts have continued. Cefic believes that any deal must include a prohibition of export duties.

Cefic calls on the European Commission to ensure that any transitional safeguard clause would be comparable to those in other EU FTAs and will not result in an asymmetric Free Trade Agreement. There is no room for export restrictions in a 21st century FTA.

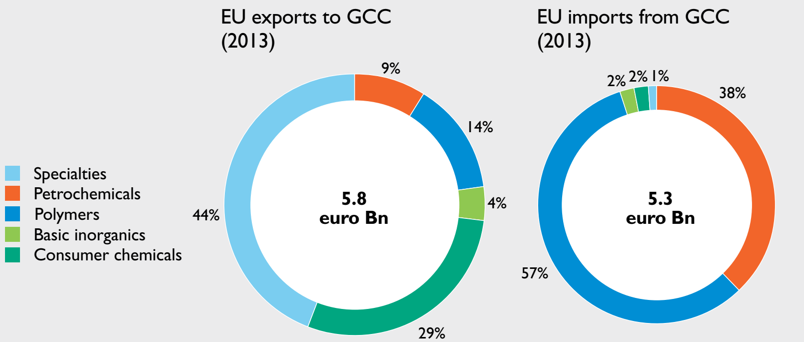
Rules of origin in the FTA need to be based on the international standards, and the EU must be consistent.

Chemicals: EU trade flows with GCC (€ million)



Source: Eurostat (Comext)

EU chemicals trade flows with GCC by sector (% of total)



Sources: Eurostat (Comext) and Cefic analysis

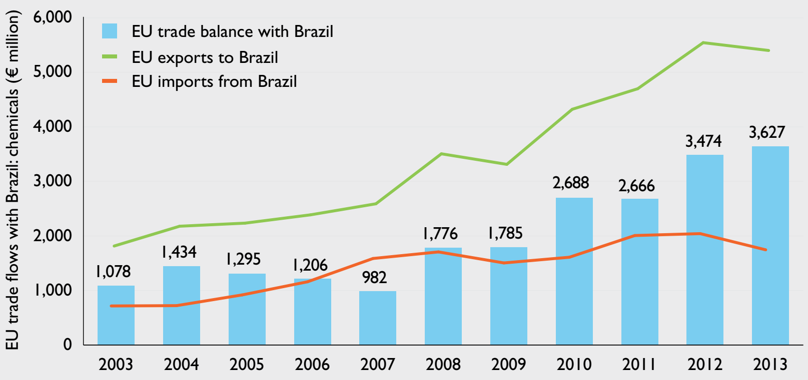
To spur EU chemical industry growth with the Gulf:

- Abolish dual pricing of chemical feedstock
- Prohibit export restrictions
- Introduce simple and flexible rules of origin

Mercosur

Among Mercosur countries, Brazil is the most important player. Its chemical output in 2013 was about €70 billion, not far behind that of France (€78 billion). EU chemical exports to Brazil have been growing for several years and the country is an interesting market with €7.2 billion of chemical trade flows in 2013 (3.1% market share). Argentina comes second, buying over €1 billion of EU chemical exports. But chemical tariffs in the Mercosur area are still rather high, averaging 7%.

Chemicals: EU trade flows with Brazil (€ million)



Source: Eurostat (Comext)

The Mercosur countries – Argentina, Brazil, Paraguay, Uruguay and Venezuela – achieved WTO membership in January 1995. Negotiations on an EU-Mercosur Free Trade Agreement were relaunched in May 2010 as part of talks on a broader association agreement with the EU. Unfortunately, both Brazil and Argentina continue to apply protectionist measures. Cefic welcomed the 2014 WTO panel ruling that some measures imposed by Argentina on importing goods are incompatible with WTO rules. We insist that these countries comply with their international commitments. Uruguay and Paraguay should also comply and stop requiring permits for exports. As WTO members, Mercosur states should implement international standards, and the EU needs to push Brazil and Argentina to comply with the standards of the Office International des Epizooties (OIE) on exports of bovine gelatine, for instance.

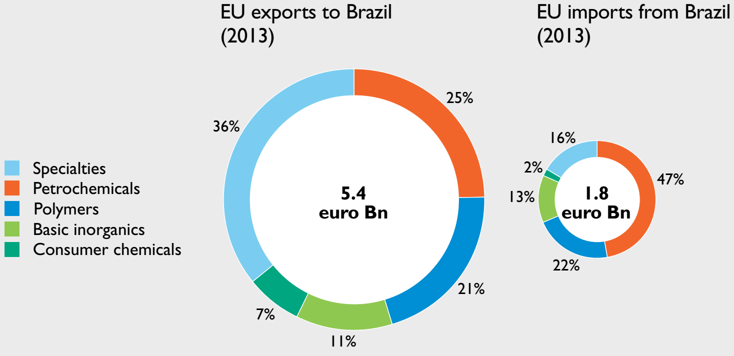
Cefic also wants manageable rules of origin like those it has proposed for the TTIP. Chemical companies need rules that are suited to the nature of their products, to their transformation processes and to their production methods.

Brazil is the world's second-biggest producer of bioethanol, accounting for 26% of output. In its Industrial Policy communication of 2014, the European Commission acknowledged the importance of access to renewable raw materials (such as bioethanol and starch) at world market prices. However, renewable feedstock is still subject to high EU import duties, preventing some European chemical companies developing sustainable products in line with the Commission's strategy on the bio-economy. Because of unpredictable access to raw materials, millions of euros of EU investments are stalled even as Brazil steadily develops its production of bio-based polyethylene and exports it to the EU. Eliminating these EU import duties is critical to spur the use of renewable feedstocks in the chemical industry.

Within Mercosur, member states should recognise the findings of tests and studies conducted in or by other member states and end requirements for duplicate tests or studies.

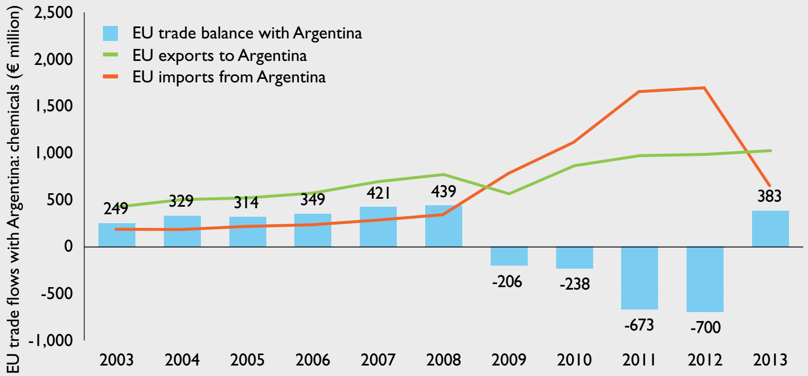
Protection of patents must be improved and they must take effect at the time of registration. Patents in Brazil almost fulfil international standards, but excessive bureaucracy extends the time for patent and trademark procedures. Securing agrochemical patents can take up to 10 years, compared to 18 months in the EU.

EU chemicals trade flows with Brazil by sector (% of total)



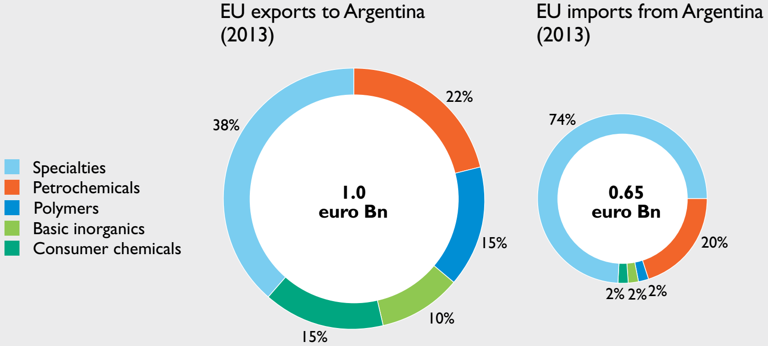
Source: Eurostat (Comext) and Cefic analysis

Chemicals: EU trade flows with Argentina (€ million)



Source: Eurostat (Comext)

EU chemicals trade flows with Argentina by sector (% of total)



Source: Eurostat (Comext) and Cefic analysis

To spur EU chemical industry growth with Mercosur:

- Comply with its WTO commitments
- Ensure fair competition
- Improve access for and protection of investors

Seven proposals to enhance prospects for European jobs, firms and regions

1.

Eliminate all tariff and non-tariff barriers for chemical products.

2.

Reinvigorate multilateral talks and push for more liberalisation, setting global standards.

3.

Deepen ambitious bilateral negotiations with the US and Japan, and launch bilateral trade talks with China.

4.

Guarantee protection of investments against arbitrary decisions and promote investor-state dispute settlement clauses in FTAs.

5.

Promote European access to quota-free and duty-free raw materials and energy.

6.

Ensure fair competition between foreign and domestic companies in emerging countries.

7.

Stimulate the establishment of user-friendly rules of origin.

For more information, please contact:
rvi@cefic.be

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.

Cefic members form one of the most active networks of the business community, complemented by partnerships with industry associations representing various sectors in the value chain.
A full list of our members is available on the Cefic website: www.cefic.org/About-us/Our-members

Cefic is an active member of the International Council of Chemical Associations (ICCA), which represents chemical manufacturers and producers all over the world and seeks to strengthen existing cooperation with global organisations such as UNEP and the OECD to improve chemicals management worldwide.

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