Center for Strategic and International Studies

The Trade Guys Podcast

“Chemistry Caught in the Crossfire”

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SCOTT MILLER: I’m Scott.

WILLIAM ALAN REINSCH: I’m Bill.

MR. MILLER and MR. REINSCH: (Together.) And we’re The Trade Guys.

(Music plays.)

H. ANDREW SCHWARTZ: You’re listening to The Trade Guys, a podcast produced by CSIS, where we talk about trade in terms that everyone can understand. I’m H. Andrew Schwartz. And I’m here with Scott Miller and Bill Reinsch, the CSIS Trade Guys.

In this episode The Trade Guys welcome another special guest. His name’s Ed Brzytwa. Ed is the director of international trade at the American Chemistry Council. Ed’s working on a hot-button issue right now and recently testified during a USTR hearing on tariffs against China. We’ll get his take on how trade is affecting everything in the chemical world – from plastics, to cosmetics, to liquified natural gas – all on this episode of The Trade Guys.

Everybody got dressed up on The Trade Guys today because Ed Brzytwa, from the American Chemistry Council, is here. ACC, as in Atlantic Coast Conference?

ED BRZYTWA: One could be confused by that, but, no. It’s the American Chemistry Council.

MR. SCHWARTZ: American Chemistry Council. And, Ed, we got to get this right off the bat, why is the chemical industry caught in the crosshairs of a trade war?

MR. BRZYTWA: That’s a great question. We are caught in the crosshairs of the trade war because in many of the Trump administration’s tariff policies, they’ve targeted chemicals directly or indirectly. And then we’re also being targeted by U.S. trading partners in the retaliatory tariffs – whether it’s the EU, China, Canada, Turkey, India. Everyone seems to be focusing their attention on chemicals trade, which is of great concern to our industry.

MR. SCHWARTZ: All right. Now, you’re going to have to forgive me because my background in chemistry comes from watching “Breaking Bad.” That’s about it. I know Walter White. I know he was a chemistry teacher. That’s pretty much it. And I don’t know if The Trade Guys know much more about chemicals. We do know that you’re a trade expert. You’re a former U.S. trade negotiator. Correct?

MR. BRZYTWA: That’s right.

MR. SCHWARTZ: How did you get into chemicals? And what chemicals are we even talking about? Are we talking about cosmetics? Are we talking about liquified natural gas? What are we talking about?

MR. BRZYTWA: So I got into chemicals just off and on over the course of my career as a trade negotiator, because it’s one of the biggest industries in the United States.
MR. SCHWARTZ: Trade drove you to chemicals.

MR. BRZYTWA: Trade drove me to chemicals, that’s right.

MR. SCHWARTZ: OK. (Laughs.)

MR. BRZYTWA: I mean, going back in the past, chemicals was a big focus on the Doha Round negotiations, both on the tariff side and the non-tariff barriers side. So I think the U.S. government’s always paid attention to chemicals – whether it’s in China, or EU, or otherwise. But, yeah, that’s always a good question about what kind of chemicals are we talking about. And I think for our members, we’re talking about bulk chemicals – you know, plastics, plastic resins, things that you use in almost everyday life. So one of the statistics we have is that chemistry touches on 96 percent of all manufacturing.

MR. SCHWARTZ: That’s a lot.

MR. BRZYTWA: That’s a lot.

MR. MILLER: Well, I have some insight into this, because I spent a long time working for a member of the American Chemistry Council.

MR. SCHWARTZ: Procter & Gamble

MR. MILLER: Now, you know our products, like Tide and Crest. But Tide and Crest are made from organic chemicals, principally. So the suppliers to Procter & Gamble of cleaning ingredients, which are what are called surface active agents or surfactants come from other members of the Chemical Council. But it’s a very important industry. It has practical consumer benefits. But much of it is unseen. Much of the trade in chemicals is what we call trading intermediates. Is used by people to make other things. A lot of – a lot of ethylene or ethane or organic chemicals were used by my former employer to make consumer products. But that – a lot of chemicals trade is unseen for that reason.

MR. SCHWARTZ: And Proctor & Gamble’s a great American company that really affects most people.

MR. REINSCH: I hope you’re not going to tell us that Pringles are made from Ed’s chemicals.

MR. MILLER: Well, Pringles now is part of the Kellogg Company.

MR. REINSCH: I know. (Laughter.) But they used to be.

MR. MILLER: They used to be. And then certainly the oil that is used to bake the Pringles is clearly a chemical.

MR. SCHWARTZ: That’s a good chemical. (Laughter.)

MR. BRZYTWA: Well, I mean, this is a good question because it touches on so many different things in our life and manufacturing in the United States. I mean, instead of talking about the individual chemicals, we like to look at the downstream uses. So think about the automotive sector.
You’ve got plastics. You’ve got fluids. You’ve got coatings – things that you need to enhance the performance of an auto to make it lighter.

MR. REINSCH: Paint.

MR. BRZYTWA: Paint, exactly. Aerospace – I mean, every single airplane you fly, there’s a lot of chemicals in that, whether it’s on the surface or inside, the electronics that –

MR. SCHWARTZ: Not to mention that you have the double whammy too, because steel and aluminum is affecting chemical manufacturers, right?

MR. BRZYTWA: We are trying to build a massive amount of chemical manufacturing capacity in the United States. Over the last 10 years, our companies have announced $196 billion worth of planned investments in the U.S. And what we’re talking about here is big ethylene crackers, just as an example. An ethylene cracker is a giant chemical manufacturing facility that’s largely made out of steel. Average amount of steels is about 18,500 tons of steel that you need to build one of these facilities. And, you know, they’re being built in places like Louisiana, Texas, Pennsylvania, West Virginia, and the list goes on.

You know, our companies want to invest in the United States, but the tariff policies are making it harder and harder. So we’ve got a 25 percent tariff on steel. That makes steel more expensive and makes it harder for our companies to build these plants. The quotas that are in place for Brazil, and South Korea, and Argentina are also problematic, because that’s means our companies can’t even get the steel that they bought – contracted to buy two years ago.

MR. REINSCH: So how are they responding? What are they going to do? Wait, or are they making other plans?

MR. BRZYTWA: Look, I think our companies are actively making contingency plans on what they should do if the tariffs come into place for China, for example, or if China retaliates.

MR. REINSCH: Will that be a big – I know China would be a particularly big impact for you, if they – if they do that.

MR. BRZYTWA: I think so, because many of our companies are making these investments in the United States with a view to exporting. So it’s not just supplying the domestic market, but supplied China, which has a very vast and growing demand for chemicals.

MR. MILLER: Now, as Ed said, ethane or ethylene is the building block of organic chemistry. The reason these plants are being built here has to do with the unconventional gas production, the fracking revolution, which is making very inexpensive natural gas. There are basically two ways to make ethane. One is to use natural gas, the other is to naphtha, which is a product of crude oil. And because of U.S. natural gas market dynamics, this is a perfect place now to build your ethane cracker. A lot of companies who had plans to build these in the Middle East cancelled those plans or shelved them and refocused on building in the United States.

MR. SCHWARTZ: Well, not to mention that President Trump said last week with Jean-Claude Juncker, president of the European Commission, that those kinds of plants were going to be built in
Europe to get our natural gas, and that could be a big part of our negotiations ongoing with the European Union, correct?

MR. MILLER: Well, there’s less than meets the eye in what was promised. Keep in mind that if everything goes well, the total exports of natural gas from the United States next year will be under $20 billion. Now, compare that to about $100 billion of auto and auto parts exports or $135 billion of farm exports. Given the current infrastructure, exports of natural gas are still a small component. And you’ll have to build a lot of infrastructure, both liquification facilities at ports and ships to transport the liquified natural gas, in order to make sort of a big enterprise out of sales to Europe.

MR. SCHWARTZ: But that market’s going to be closed to us if we don’t do something about these tariffs. And since 2016, LNG’s on the rise being exported to Europe.

MR. MILLER: Yes, that’s right. It’s rising from a small base. And so I wouldn’t be the economic future of the United States on natural gas exports to Europe. However, it’s great to have low-cost natural gas here. It stimulates the industry that Ed represents, and has many important side effects.

MR. SCHWARTZ: Ed, you said that there’s 1,500 chemicals and plastic products that are caught up in this potential 25 percent of the $200 billion in Chinese imports the administration recently targeted for an additional 10 percent tariffs. Is that correct?

MR. BRZYTWTA: That’s correct.

MR. SCHWARTZ: So that’s a lot. The value of the imports from China was 16.4 billion (dollars) in 2017. So that’s a pretty big market share we’re talking about here.

MR. BRZYTWTA: That’s right. So that means that the cost of those products is going to go up in the United States. You know, prices will be higher because of the tariff – the 10 percent tariff. Many of our companies who are really worried about this are small and medium-sized enterprises. They’re trying to import building blocks, other raw materials from China, feedstock, so they can manufacture here in the United States and then supply their customers. And I think their customers are also getting worried about the cost increases.

MR. REINSCH: And tell us a little bit more about the – you know, the composition of the industry, because we spend a lot of time here talking often about big companies because Scott used to work for one and I used to represent a bunch of them. How many of your members are – percentage members are small and medium sized? And tell us a little bit about how the industry is structured.

MR. BRZYTWTA: Sure. I mean, there are obviously a lot of big chemical companies that are in our membership. But I’ve been talking to more and more of the smaller companies. And I think, you know, just looking at our membership, there’s a lot of companies you might never have heard of. But these are important chemical manufacturers. And they are – they are smaller. But they are supplying really innovative products. So we are – we’re concerned about the impact on those companies, because they’re important members.

MR. REINSCH: And are you geographically dispersed? I mean, a lot of this – are you mostly in Texas, Louisiana and the South, or are you all over the place?
MR. BRZYTWA: There is chemical production and activity in almost every single state in the United States. We touch on every single state, and many of the states that President Trump won.

MR. SCHWARTZ: How many jobs are in the chemical sector?

MR. BRZYTWA: We estimate about 822,000 jobs in the United States alone in the chemical sector.

MR. MILLER: That’s nearly the size of the auto manufacturing industry – auto manufacturing and parts.

MR. SCHWARTZ: That puts it perspective for you.

MR. BRZYTWA: Eight-hundred-billion-dollar industry in the United States.

Q: Really puts it in perspective.

MR. BRZYTWA: Fifteen percent of GDP. I mean, this is a big industry for the U.S.

MR. REINSCH: Yet, the president talks about cars and steel. He never talks about chemicals. Does he know you guys exist? Does he care about you guys?

MR. BRZYTWA: You know, the president does talk a lot about autos. He has a focus on autos. I think he should care about us, because we’re important to the automotive sector. They’re one of our biggest customers. If the prices of chemicals go up for the automotive industry, then that impacts their ability to produce more competitively cost autos and sell autos to the American people. So he should care about us. And, you know, we supply to the aerospace industry. We supply to farmers. They’re a big customer of ours.

MR. SCHWARTZ: Well, how is it going to affect consumers? Because people are starting to talk about yesterday Jamie Dimon, the head of JPMorgan Chase, said that Trump’s advisors told Trump there would be no retaliation. They obviously were wrong about that. Also, they’ve said that it’s not going to have any effect on consumer spending or inflation. And Dimon says they’re also wrong about that. What do you think?

MR. BRZYTWA: Speaking as a trade expert, as soon as the president was elected, and I knew he was focusing on tariffs, those were two things that came to my mind. I mean, this is like early 2017, that if you’re going to impose tariffs that means it’s going to have an inflationary affect. And if you’re going to impose tariffs without justification necessarily, you’re going to invite retaliation. I mean, I think anyone in the industry knew that retaliation would happen. And it has.

MR. MILLER: Now, related to this, there’s an issue that the Department of Commerce and other agencies were trying to sort of mitigate the effects of the tariffs. Seem – they seem mystified about it. And that’s specialization. Can you talk about how specialized production is in the chemical industry and why, when you put tariffs on an item that’s currently imported, it’s not a light switch to go turn that production domestically and meet the need.

MR. BRZYTWA: That’s right. You have to make a difference between, like, the bulk commodity chemicals production and then specialty chemicals production. Specialty chemicals, often,
you know, it’s very, I would say, boutique, in a way. Like, you’re trying to work with individual customers to produce a chemical that they are specifically asking for, for another application.

MR. MILLER: But these are essential components for things like perfumes, dyes, colorants.

MR. BRZYTWA: That’s right.

MR. MILLER: Things that actually make a difference to the final consumer product.

MR. BRZYTWA: That’s absolutely right. And there’s a lot of innovative products that are of use for, like, really high-tech applications – like specialty polymers. There’s a number of our members that are focused on this area. So, you know, things that have really unique properties. But you need certain things to product those things, right? And that’s the specialization. You need certain types of building blocks in the feedstock to make those items.

MR. MILLER: And when the tariff goes on, there’s no – there would not obviously be a domestic offset for that. No one domestically could produce the ingredient that’s being imported.

MR. BRZYTWA: That’s absolutely right. Chemical manufacturers in the United States are making these investments under one set of circumstances they’d had assumed. That’s no tariffs and low-cost access to a natural gas feedstock, right?

MR. MILLER: Right.

MR. BRZYTWA: And now you’ve got a different set of circumstances. And their investments – you know, they want to invest in the United States, but these tariffs are making it a lot harder.

MR. SCHWARTZ: Well, Bill just mentioned before that President Trump doesn’t talk about chemicals in the trade war. And he may or may not know about it, but what are you doing to get chemicals onto the front burner and have them, as you want them, taken off the front lines of the trade war?

MR. BRZYTWA: Right. So we’ve been actively engaged since the get-go here. We’ve testified twice. We’ve offered our public comments.

MR. SCHWARTZ: Testified on Capitol Hill?

MR. BRZYTWA: Testified in front of the Section 301 committee that USTR leads. So last week we testified on –

MR. SCHWARTZ: All right, time out, what is Section 301, for those of us who are not enlightened? Bill can answer this, I know that.

MR. REINSCH: Section 301 is the section that allows the president to take action against countries for unfair, unreasonable, or discriminatory practices. It’s the section that he used to ask the U.S. Trade Representative to investigate what China was doing. And they issued a report called the Section 301 Report that identified a series of Chinese practices that we’ve talked about, mostly technology – forced technology transfer.
MR. SCHWARTZ: Transfers, right.

MR. REINSCH: And the president’s response to that report was the tariffs. But in announcing the tariffs, he also said we’re going to create an exclusion process where people who think that their product should be left off the tariff list, they can come in and make that request.

MR. SCHWARTZ: So you guys did that, Ed?

MR. BRZYTWA: Sure. Back in May we – when we issued our first set of public comments we made the request that they should take all the tariffs on chemicals and plastics off of the original list they published in April. And when they came out with this dual list approach – list one, list two, $34 billion on one list, 16 (billion dollars) on the other – what we found was there were no chemicals and plastics on list one –

MR. REINSCH: Which is good for you.

MR. BRZYTWA: Which is good for us, because we’re – there’s no tariffs on our products right now. They all ended up on list two. And actually, more products ended up on list two, about $2.2 billion in imports.

MR. SCHWARTZ: So what does that mean?

MR. BRZYTWA: So that means that we got a little bit of respite, like, a delay in terms of the tariff implementation.

MR. REINSCH: It means they’re hosed if the next – if the next set of tariffs goes into effect.

MR. BRZYTWA: Right. So we – I mean, we said, let’s take our testimony, our comments from last week in the public consultation. We said: Get rid of all those tariffs. We don’t want tariffs on those products. We reject the tariffs. You’re just inviting more retaliation from China.

MR. REINSCH: So how did you do in the third list of the 200 billion (dollars)? Are you prominently there?

MR. BRZYTWA: Prominently featured. As Andrew said, about $16.4 billion of imports of chemicals and plastics from China are on that list. And as we said previously, that’s going to invite more retaliation by China. We want to export to China. If there’s tariffs in China on our products, we can’t do that.

MR. REINSCH: So it sounds like you’ll be testifying some more.

MR. BRZYTWA: I’ll be testifying some more. We’re developing our third set of public comments on this. (Laughs.) I think we’ll probably do more of that.

MR. SCHWARTZ: Well, to put this in perspective for our listeners, an organization called The American Action Forum, a respected trade group, came out with a study yesterday. And it broke down what this – I guess this third list of trade –

MR. REINSCH: The 200 billion (dollar) list.
MR. SCHWARTZ: Of the 200 billion (dollars) would actually do. And so they broke it into categories. There’s the miscellaneous category products make up the biggest – the next biggest category – well, let’s go back. The first-biggest category is machinery and mechanical appliances, electrical, intelligent equipment. That’s 87 billion (dollars) of Chinese good targeted in the new – in the new duties. Miscellaneous products make up the next biggest ones, 30.9 billion (dollars), followed by stones, metals, cement and glass, 21 billion (dollars). Then we’ve got minerals, chemicals plastics, and rubber, 20.8 billion (dollars). So you’re right at the top of the list of things that are going to be targeted here.

MR. BRZYTWA: That’s right. And that’s the value of the imports. If you look at the number of products on the list, a quarter of them are related to our sector – chemicals and plastics.

MR. SCHWARTZ: Twenty-five percent?

MR. BRZYTWA: Twenty-five percent of the products on the list.

MR. MILLER: And this is when life gets extremely difficult for Ed’s members, because they now have to formulate around or pay higher prices for those materials to make the products they intend to make. These are what we commonly refer to as intermediate goods.

MR. SCHWARTZ: And if they pay higher prices, that’s going to get passed onto the consumer, correct?

MR. MILLER: That’s correct, right? And substituting ingredients is not – is not an easy thing to do. It takes qualification. It takes – there’s an immense amount of work associated with finding alternate sources of supply or substitute materials. It’s a non-trivial problem.

MR. REINSCH: Particularly in this area where quality is an important determiner. Now, you – did you get to the number – his bottom line there? Because it’s almost 20 billion (dollars) in increased costs, right?

MR. SCHWARTZ: Right. Yeah, that’s right.

MR. REINSCH: So – to the – to the consumer.

MR. MILLER: Right.

MR. BRZYTWA: And, you know, China, in their list too, they targeted $5.4 billion of U.S. exports of chemicals and plastics. So we don’t know what they’re going to do with respect to the $200 billion list. Are they going to – they can’t get to $200 billion, but I suspect they’re going to make our lives a little bit more difficult.

MR. MILLER: Well, in a previous episode Bill referred to the U.S.-China trade spat as a five-act play. This sounds like we’re well into act two. The plot is thickening. What – how do you think this – you know, how do we get this moved ahead in the drama?

MR. BRZYTWA: Sure. Well, one thing we’ve been working really hard on is understanding what the impacts of these tariffs are on our members. And in our advocacy with respect to the
administration, to representatives and senators on the Hill, to the general public, to the press, we’re – we have a list of stories we’ve collected from our members that describe what would happen if these tariffs come into effect. And let me give you some examples.

Some of our members have said: Well, we would have to move production overseas to maintain access to the China market. That’s a really important market for us. We might have to halt production in the United States. We might have to close a facility. You know, they – our members don’t want these tariffs, but they have to make decision that make business sense for them.

MR. SCHWARTZ: And that starts to chip away at the 800,000 jobs that you mentioned before, if they have to do that.

MR. BRZYTWA: That’s right. We are an industry that’s poised to grow in the United States. And our analysis is that this policy of more and more tariffs is going to inhibit that growth.

MR. SCHWARTZ: Well, is the Trump administration doing anything right when it comes to chemicals?

MR. BRZYTWA: You know, I think there’s a lot of potential for a policy that drives at zero tariffs in general for industrial goods.

MR. SCHWARTZ: Right, because I was going to say, the thing that you have in common with the president is you want open markets.

MR. BRZYTWA: We want open markets. We want zero tariffs. And the president made some really helpful statements around the G-7. Let’s all go to zero on tariffs. No subsidies. Get rid of non-tariff barriers. And I think that was the same message that came out of the Juncker meetings. I mean we would support a zero-tariff environment.

MR. MILLER: Well, let’s go a little deeper with the U.S.-EU trade in chemicals. What’s happening now? Are there tariffs on the goods now? And what would a zero-tariff world mean? And what does it mean to have no non-tariff barriers? That would mean common regulations, or something like that. Can you describe it today, and what it might be in a tariff-free world?

MR. BRZYTWA: Sure. I mean, look, the EU is one of our most important trading partners for the United States. And I think it goes without saying that there’s a lot of trade in chemicals between the EU and the U.S. across the board. It’s a very active market. Right now, because of the steel and aluminum tariffs, the EU is retaliating against the United States. And they’ve targeted chemicals in their retaliation. So they’re – some of our members are experiencing some problems exporting to the EU, but the overall trade is quite significant.

MR. MILLER: But in a world – separate from the retaliatory tariffs, what you have is a lot of – a lot of trade. And trade, while it does have relatively low tariffs, it’s high dollar-volume. So it actually generates a lot – there’s a lot of revenue for the government in that – in that exchange.

MR. BRZYTWA: That’s right. That’s right. And you know, a long time ago the U.S. and the EU and the major chemical manufacturing countries agreed to harmonize their tariffs for chemicals in the – I think the Uruguay round of negotiations.
MR. MILLER: Uruguay round, correct.

MR. BRZYTWA: Chemical harmonization – Chemicals Tariff Harmonization Agreement. And, you know, that was a big enabler for our industry, because it gave us a lot of certainty as to what the rates would be. They’re all very flat. There are not a lot of spikes.

MR. MILLER: So you have predictability in the current world.

MR. BRZYTWA: Predictability and certainty.

MR. MILLER: Yeah.

MR. SCHWARTZ: So now, in your public comments, in your statements, in your testimony, what are you urging to do to enact a better U.S. trade policy?

MR. BRZYTWA: We are trying to get the administration to work with its allies to focus on China, rather than taking a unilateral approach.

MR. SCHWARTZ: Which allies would that be – would those be? (Laughs.)

MR. BRZYTWA: Right? Well –

MR. REINSCH: All the ones we’re irritating.

MR. BRZYTWA: All the ones we’re irritating.

MR. MILLER: Canada and Mexico. How about that one? (Laughter.)

MR. REINSCH: Everybody we’ve offended.

MR. MILLER: And Japan.

MR. BRZYTWA: Look, you keep – it’s hard to address these structural problems in China unless you’re on the same page with –

MR. SCHWARTZ: We know a few guys in Australia that might still like us, but, you know, I don’t know –

MR. BRZYTWA: Yeah, maybe.

MR. MILLER: Fortunately we have a trade surplus with them.

MR. SCHWARTZ: Yeah. (Laughs.)

MR. BRZYTWA: And the Australians escaped any steel or aluminum tariffs or quotas. So they’re in the clear. But, I mean, you can’t address these problems in China unless you have force multipliers with your allies. You have to, you know, band together with the European Union. You have to band together with Japan and any other interested economy that wants to address these problems. And we’re just not seeing that yet. We’ve said from the get-go, let’s work together with
others, exert multilateral pressure. Let’s fix these structural problems in the long term. It’s not going to be easy, but this short-termism is not something that I think is going to solve the long-term problems in China.

MR. REINSCH: Can we come back to Europe for a second?

MR. SCHWARTZ: Yeah, of course.

MR. REINSCH: Because we let him off the hook, and I want to come back on something. Let’s talk about –

MR. SCHWARTZ: This is trade lawyer Bill.

MR. REINSCH: No lawyer, just occasionally thinks like one.

MR. SCHWARTZ: Yeah.

MR. REINSCH: Let’s talk a little bit about non-tariff barriers, from a couple perspectives. One, what came out of the European negotiation was, you know, maybe some soybeans and maybe some LNG. And they got an agreement about no car tariffs as long as we’re talking – which suggests it’s going to be a long negotiation since they have no incentive to stop talking. But what’s the – what the negotiation is going to be about, it looks like it’s going to be TTIP all over again. The Transatlantic Trade and Investment Partnership. A big part of which was non-tariff barriers and dealing with regulatory schemes. And that gets us right to the center of your industry, because you’ve got a big regulatory scheme in Europe, REACH. And you’ve got TSCA in the United States, big regulatory scheme here. Scheme sounds a little sinister but, you know, regulatory structure.

MR. SCHWARTZ: We’re in sinister times.

MR. REINSCH: Yes. Did we make any progress in the TTIP negotiations in either mutual recognition or harmonization of those different approaches? And if not, what are the prospects going forward?

MR. BRZYTWIA: Sure. So there was two major things that our industry, the American Chemistry Council, advocated for in the TTIP. Number one we’ve already talked about, going to zero on chemicals tariffs bilaterally between the U.S. and the EU. Number two is really strong provisions on regulatory cooperation for the chemical sector. So this is a little bit different from what you were talking about, Bill. You know, REACH is the law of the land in Europe and TSCA’s the law of the land in the United States. But I think there’s a lot of room for both systems to cooperate with one another, and for regulators to cooperate with one another on really critical chemicals regulatory issues. So aligning new regulatory steps to a greater degree, finding efficiencies in your regulatory processes.

MR. MILLER: Now, one of the reasons cooperation is important because an industry like yours is constantly creating new chemicals. And the question – the question then presents itself, how does the European system treat this new chemical and how does the American system treat it? And can you find ways to harmonize that, or to cooperate in that?

MR. BRZYTWIA: Right. And this is really about preventing non-tariff barriers from happening in the first place. As a former NTB negotiator, I always thought that there was more value
for businesses in prevention rather than trying to address barriers after the fact. And so regulatory cooperation –

MR. REINSCH: You certainly don’t have as many interventions before the fact.

MR. MILLER: Well, also, companies who are – U.S. companies who are operating in Europe in the chemicals business have already complied with REACH.

MR. BRZYTW: That’s right.

MR. MILLER: I mean, the compliance costs are sunk. They’re in the base. And they’re not really relevant for future decision-making. But if you can reduce costs for future regulatory cooperation or future regulatory actions by companies, you’re actually saving them real money.

MR. BRZYTW: That’s right.

MR. SCHWARTZ: Can we back up for one second? I always thought TSCA was, like, a pizza stand that you get at the airport. What is TSCA?

MR. BRZYTW: TSCA is the Toxic Substances Control Act.

MR. SCHWARTZ: OK.

MR. BRZYTW: It was reformed in 2016 by the Congress. And ACC was a strong proponent of this. And this is about how you regulate chemicals that are in commerce. So there are a number of other statutes that touch on chemicals regulation – so personal care products, cosmetics – you know, there are a lot of other types of regulation. But this is the primary piece of regulation in the United States for chemicals.

MR. SCHWARTZ: OK, good. Just wanted to clear that up.

MR. REINSCH: Can I?

MR. SCHWARTZ: Yeah, jump in, please.

MR. REINSCH: One of the other issues that we really haven’t gotten to yet on The Trade Guys, but we should at some point, is sort of wither WTO, what’s going to happen next in the WTO. And one of the comments that comes up with increasing frequency is if we can’t get a big agreement on everything – like the Doha Round – maybe we should look at little agreements, plurilateral agreements amongst countries that are willing to reach an agreement on tariffs or on whatever. The Information Technology Agreement is one that always is held up as a good example of these sort of things. One of the sectors that is prominently mentioned as a candidate for that kind of thing is chemicals – a plurilateral chemical agreement. Have you guys given any thought about that? Do you have a position on it?

MR. BRZYTW: Well, we’ve advocated for this in the past. I mean, if you go back to the Doha Round negotiations –
MR. REINSCH: Tariffs only or NTBs too?

MR. BRZYTWA: Tariffs – yeah, I think tariffs was the primary focus and there were NTB discussions on chemicals. But those sectoral negotiations were supposed to be multilateral. And I think a plurilateral chemicals approach might attract some more interest. I mean, mainly because the industry is fairly unified in advocating for zero tariffs.

MR. REINSCH: Are most of the countries that are the big producers interested in doing something like that?

MR. BRZYTWA: I think we’ve got alignment with the EU. The proposals we made for TTIP were joint proposals with our counterpart association in Europe, CEFIC, on chemicals.

MR. MILLER: Well, the industry’s been living for over 20 years with chemical harmonization, the outcome of the Uruguay Round, which started in 1994 in terms of – brought into force in ’94. But every party that has acceded to the WTO since then, including China, has agreed to chemical harmonization. So there is actually a baseline that everybody starts from pretty much the same position, at a 6 ½ percent or lower tariff. So getting to zero is not that big a reach in the grand scheme of things.

MR. BRZYTWA: It’s not that big a reach, but, again, you’ve got a number of countries that didn’t accede to the WTO. They were grandfathered in. And they have some different tariffs. They’re not part of the –

MR. MILLER: Yeah, it’s a little unorthodox, yes.

MR. BRZYTWA: A little unorthodox. So, you know, like any plurilateral tariff negotiation, there’s always going to be challenges. But what you need is the critical mass of chemical-producing countries to join together and work on this. And I think that would be of great interest to us. If the Trump administration said, yes, we’re going to push for that, we’d be on board with it.

MR. REINSCH: Any sign that they are?

MR. BRZYTWA: Not yet.

MR. MILLER: It’s such a quaint concept, to seek input from constituents about what their interests are and to enter into bargaining based on those interests. That’s just – I’m shocked it’s still going on here.

MR. BRZYTWA: The phone lines are open. (Laughter.)

MR. REINSCH: We’ve been – discussed this in the past for the negative perspective when we talked about the car tariffs. You know, wondering why here is an idea that nobody is for, yet it keeps moving forward. This may be an idea that everybody is for and it’s not moving forward.

MR. MILLER: Yeah. A lot of that going on.

MR. SCHWARTZ: That’s a good point, yeah. Well, speaking of something that might be able to go forward, you’ve called for aggressively pursuing bilateral negotiations with our key trading
partners. That would be NAFTA. That would be U.S.-Korea Free Trade Agreement. What do we need to do there? And what are we not doing? What is the administration not doing there?

MR. BRZYTWA: Well, I actually think it’s beyond just NAFTA and KORUS. I mean, we want new market access so that we can supply all this new chemical production capacity to the rest of the world. So if we’re just renegotiating existing agreements, it doesn’t get at that new market access component. So what the administration – we’d like the administration to focus on, is where are we going to get the most value for our exporters? And, you know, where are the tariffs the highest? Where do we have to do the most work?

MR. MILLER: This is a fascinating set of connections that I just made, that is the plentiful low-cost natural gas led to higher production capacity in the organic chemistry business. OK, now that the capacity is there, you have output beyond what the United States can consume, and so you’re seeking those markets. So this is natural consequence of sort of the revolution in oil and gas.

MR. BRZYTWA: Look, we estimate that under current circumstances – you know, tariff-free circumstances – (laughs) – our trade surplus in chemicals is going to grow to 71 billion (dollars) by 2023.

MR. SCHWARTZ: Wow.

MR. REINSCH: And also a reminder of what we said here many times, which is if you want to grow, you have to trade.

MR. MILLER: Right.

MR. REINSCH: You can’t grow substantially in the American market. It’s not growing fast enough. You’re doing exactly the right thing to grow the industry.

MR. BRZYTWA: Right. We’re going to contribute to increasing U.S. exports. We want to do that. Tariffs are going to make it harder.

(Music plays.)

MR. SCHWARTZ: To our listeners, if you have a question for The Trade Guys, write us at TradeGuys@CSIS.org. That’s TradeGuys@CSIS.org. We’ll read some of your emails and have The Trade Guys react to it. Thank you, Trade Guys.

MR. MILLER: Thanks, Andrew.

MR. REINSCH: Thank you.

MR. SCHWARTZ: You’ve been listening to The Trade Guys, a CSIS podcast.

(END)