

ACC UPDATE IMPLICATIONS OF U.S. TRADE ACTIONS

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**U.S. TRADE ACTIONS
AND TRADE PARTNER RETALIATION**
OVERVIEW OF U.S. TRADE POLICY AND TERMS

US CHEMICALS INDUSTRY AND TRADE

NAFTA/USMCA

**SEC 232:
ALUMINUM & STEEL
AUTOS & AUTO PARTS**

SEC 301: US-CHINA TRADE

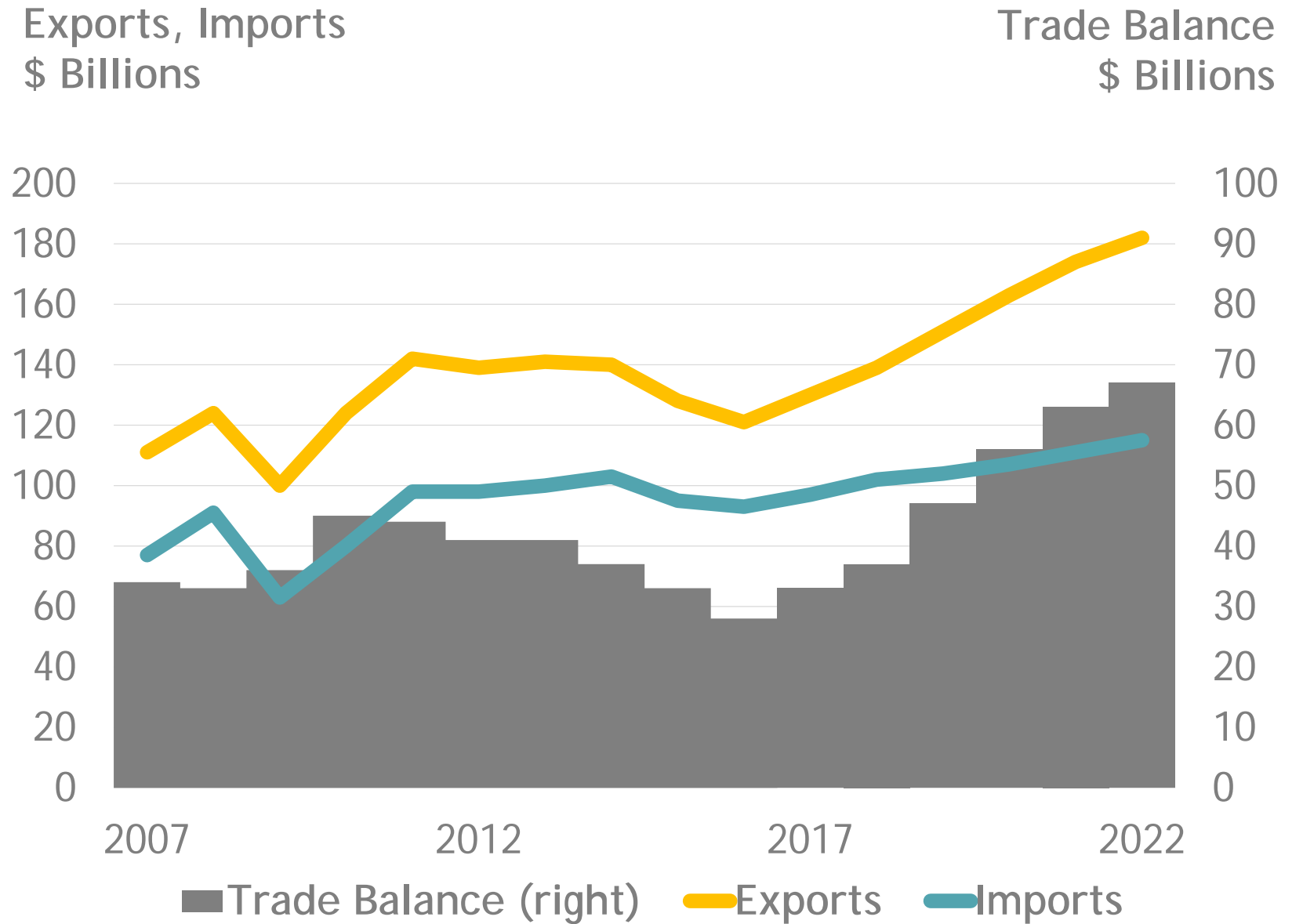
WTO

U.S. Trade Terms

- NAFTA - North American Free Trade Agreement
- USMCA - U.S-Mexico Canada Agreement
- Section 232 - national security provision in Trade Expansion Act of 1962
- Section 301 - broad trade enforcement provision in Trade Act of 1974
- Tariff - tax applied on imported goods coming into the United States
- Investor-State Dispute Settlement - an arbitration system that allows companies to make claims against government actions

US CHEMICALS TRADE

Trade surplus driven by net exports of basic chemicals



U.S. Shale Boom Poised to Drive Chemical Exports Even Higher

\$185B investment

317 projects

465,000 new jobs

\$310B in new economic output

\$30 billion shale
related exports by 2025

\$13 billion to Canada
& Mexico

Investments predicated on growing foreign
demand for U.S. chemical products

Pillars of Administration Trade Policy

- ✓ U.S. is a victim of unfair trade practices and trade deficits
- ✓ Existing U.S. trade agreements are a problem
- ✓ Manufacturing sector has weakened as a result of trade
- ✓ Bilateral is better than multilateral
- ✓ Tariffs are both a tool for leverage and a solution
- ✓ China is the most significant U.S. and global foe on trade (and otherwise)



Bottom Line for the U.S. Chemicals Sector:

**Higher tariffs, possibly better rules, not
enough new market access**

NAFTA MODERNIZATION/ USMCA

August 2017	Modernization talks start
Aug 27 2018	“Understanding” between US & MX reached
Sept 30 2018	US, CA, MX announce agreement on USMCA
End of Nov 2018	US, CA, MX expected to sign USMCA

Wins for Chemical Manufacturers:
Duty-free environment, Regulatory Cooperation, streamlined ROOs

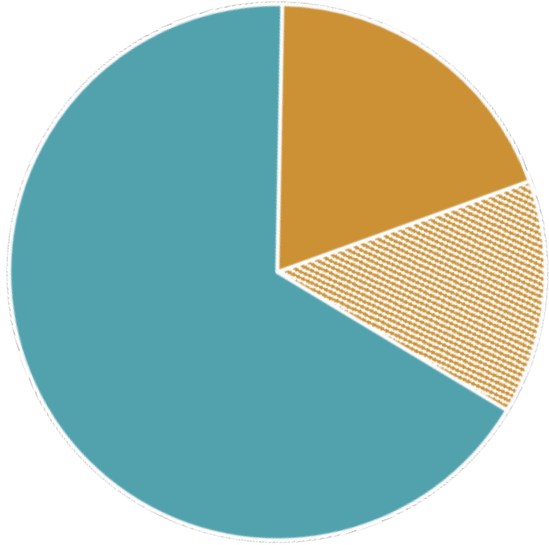
Administration still threatening to terminate NAFTA

Substantive Concerns:
ISDS, Sunset Clause, Prohibition on Duty-Drawback

Precedential Concerns:
ISDS, non-market economy provision, Sec 232

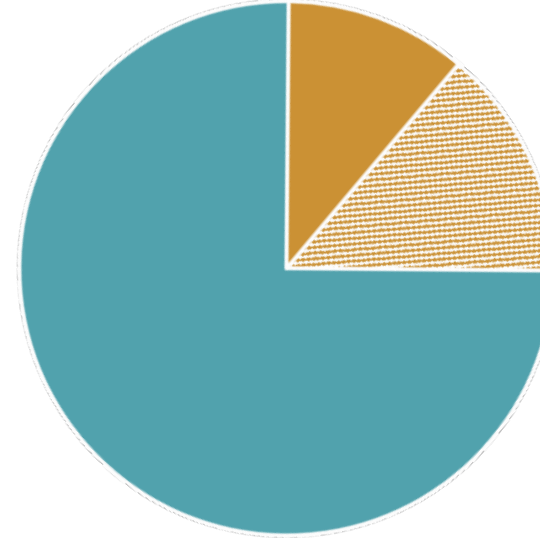
Timing of vote on USMCA in Congress:
UNCLEAR

North American Chemical Industry is Highly Integrated



1/3 of all U.S. chemical exports are sold to MX, CA

44%
intracompany transfers



1/4 of all U.S. chemical imports are from MX, CA

64%
intracompany transfers

Top U.S. Chemicals Export Partners

1. Canada
2. Mexico
3. China
4. Belgium
5. Brazil

46,000

U.S. chemical industry jobs depend directly on chemical exports to Canada/Mexico

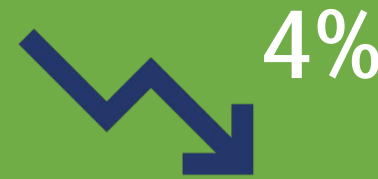
Terminating NAFTA Would Raise Prices, Destroy Demand & Jeopardize Investments

Tariff burden on U.S. chemical exports to Canada & Mexico could be between

\$700 million MFN Tariffs → **\$9 billion** Final Bound Tariff Level

Reduction in trade to Canada & Mexico

Best Case



Worst Case

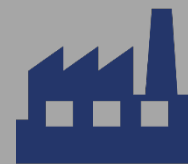


Loss of up to 21k jobs

Price of:

U.S. chemical exports to Canada ↑ 0.8% - 4.4%

U.S. chemical exports to Mexico ↑ 2.3% - 35.2%



Creates uncertainty for **42% (\$85B)** of announced investments

Total Losses in a Worst Case Scenario



Electronics



Health Care



Auto



Building &
Construction

U.S. SECTION 232 TARIFFS ALUMINUM & STEEL

April
2017

U.S investigation into whether steel and aluminum imports threaten national security initiated

Feb
2018

Commerce releases findings that the imports pose national threat

March
2018

Global tariffs on steel (25%) and aluminum (10%) announced (3/1) and imposed (3/23).
EU, CA, MX and others exempt.

June 1
2018

Tariffs go into Effect for EU, CA, MX.

U.S. SECTION 232 TARIFFS ALUMINUM & STEEL

Trade Partner Retaliation

Partner	Effective	Direct Chemical Trade Impact
Canada	July 1	3 lists of tariffs on \$12.8 B in US exports incl 10% tariffs on \$2.5B chemicals & plastic products ...includes herbicides, ½ of all US herbicides exports are sold into CA
EU	Jun 22 (list 1)	10-50% tariffs (mostly 25%) on \$3.2 B of US products like cranberries, Harley Davidson motorcycles, blue jeans, tobacco, PB, bourbon, and \$500 M in CHEMICALS (12 products - mostly make-up preparations)
India	May 18	10-15% tariffs, 4 of 30 products are chemicals valued at \$289 M
Turkey	June 21	10-60% tariffs, 4 chemicals valued at \$169 M
China	April 2	Tariffs on \$2.4B in US exports - NO CHEMICALS
Mexico	June 5, July 5	10-25% tariffs, mostly ag. products but includes steel & aluminum - NO CHEMICALS
Russia	Aug 5	NO CHEMICALS
Japan	Unk	Unk

U.S. SECTION 232 TARIFFS ALUMINUM & STEEL

IMPACTS

\$3.5B

U.S. Chemicals & Plastics
Exports exposed to
Retaliatory Tariffs

Due to U.S. Tariffs on Imports:

...increased costs to maintain and expand capital... direct impact to chemical plant maintenance and construction costs
→ investments put on hold and/or cancelled; particularly painful consequences to projects in progress

...increased cost of essential inputs into downstream products
→ decline in demand for U.S. chemicals → decline in U.S. chemicals production, lost jobs, offshoring, investments put on hold and/or cancelled

Due to Retaliation on U.S. Exports:

\$3.5 B in chemicals exposed to retaliatory tariffs
→ decline in U.S. chemicals production, lost jobs, offshoring, investments put on hold and/or cancelled

Tariffs on exports of downstream chemistry-containing products
→ decline in demand for U.S. chemicals → decline in U.S. chemicals production, lost jobs, offshoring, investments put on hold and/or cancelled

ECONOMIC IMPACT U.S. STEEL & ALUMINUM TARIFFS

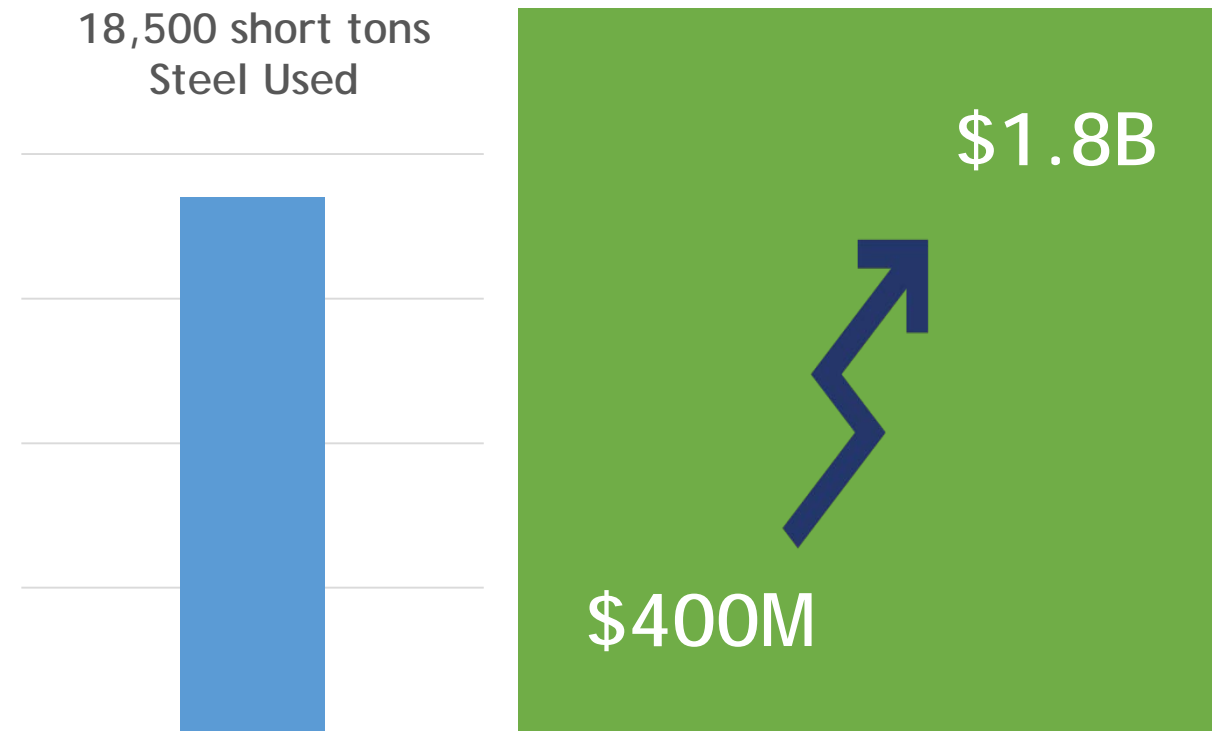
Concentrated Benefits

*Costs Dispersed across
Economy*

*16 jobs lost for every
1 gained in S&A**

*Trade Partnership Worldwide estimate

Impact of Steel Tariffs on Chemical Industry Investments in U.S. *Cracker Example*



Increased Costs of building and
expanding the U.S. Chemical
industry over next 5-6 yrs

U.S. SECTION 232 TARIFFS AUTOS & AUTO PARTS

May
2018

U.S investigation into whether auto & auto parts imports threaten national security initiated

Administration considering 20% or 25% tariffs

July
2018

Public comment, review process complete

Late
2018

Tariffs could go into effect

U.S. SECTION 232 TARIFFS AUTOS & AUTO PARTS

IMPACTS

Tariffs on autos & auto parts will result in **lost output** and **lost jobs** in the U.S. auto industry.

1.5% contraction in output
and 195,000 U.S. job loss*

*Source: Peterson Institute for International Economics

Disintegration of the global supply chains

98% of auto imports, 72% of exports are intra-company
55-59% of auto parts imports, 35-48% of exports are intra-company

... these are taxes on MNCs!

Examples

Tariffs on NA imports:

0% (NAFTA) + 25% (new tariff) => 25% tariff on autos

Tariffs on EU imports:

25% (current) + 25% (new tariff) => 50% tariff on light vehicles

Retaliation Expected

>\$360B US exports exposed

...could incl tariffs on Chemicals & Products containing Chemicals

→ Contraction in Demand for Chemicals Exports

→ Contraction in Downstream Demand

U.S. SECTION 232 TARIFFS ALUMINUM & STEEL IMPACTS



Cost of New Capital, Maintenance
& Expansion of Existing



Competitiveness of Downstream
Steel/Aluminum Consumers

\$3.5B

U.S. Chemicals &
Plastics Exports
exposed to
Retaliatory Tariffs



Demand for
U.S. Chemicals



Demand for U.S.
Goods *containing*
Chemicals

U.S. SECTION 232 TARIFFS AUTOS & AUTO PARTS IMPACTS

Auto is a Key End-Use Market
for Chemicals and Plastics

*Tariffs would cause disintegration in
global supply chains, making North
American auto production more costly
and reducing competitiveness.*



Demand for U.S. Chemicals



Demand for U.S. Goods
containing Chemicals

>\$360B

U.S. Exports exposed to
Retaliatory Tariffs

U.S. SECTION 301 TARIFFS ON US-CHINA TRADE

AND CHINESE RETALIATION

\$10.8B

U.S. Chemicals & Plastics
Exports
exposed to Retaliatory
Tariffs

Aug 2017	U.S investigation into unfair trade practices by Chinese initiated
Mar 2018	Commerce releases findings that China is conducting unfair trade practices related to technology transfer, IP, and innovation
April 2018	U.S. announces 25% tariffs on 1,300 Chinese products, 2 lists: \$34B + \$16B
July 6 2018	U.S. tariffs on \$34B (includes 1 chemical (a reagent)) imposed; Chinese tariffs on 545 products (no chemicals)
July 10 2018	U.S. announces 10% (<i>or 25%!</i>) tariffs on \$200B, 6,000 products (1,505 chemicals/plastics)
July 20 2018	U.S. threatens tariffs on up to \$505B (basically ALL imports from China)
Aug 3 2018	Chinese tariffs on \$60B announced (987 of 5,207 products are chemicals/plastics)
Aug 23 2018	U.S. tariffs on \$16B imposed (includes \$2.2B chemicals/plastics); Chinese tariffs on \$16B imposed (includes \$2.0B in chemicals/ plastics)
Sept 17 2018	Final list of U.S. tariffs on \$200B published; 10% then 25% (2019) rates.
Sept 24 2018	U.S. tariffs on \$200B (\$13.2B chemicals/plastics, 1,364 product lines) and Chinese tariffs on \$60B (\$8.8B chemicals/plastics) imposed

U.S. SECTION 301 TARIFFS ON US-CHINA TRADE

SUMMARY

	U.S. SECTION 301 TARIFFS ON IMPORTS FROM CHINA	CHINESE RETALIATORY TARIFFS ON IMPORTS FROM THE U.S.
July 6	25% tariffs on \$34B imposed <i>(one chemical, \$3.6M)</i>	25% tariffs on \$34B imposed <i>No Chemicals</i>
Aug 23	25% tariffs on \$16B imposed <i>\$2.2B Chemicals/Plastics</i>	25% tariffs on \$16B imposed <i>\$2.0B Chemicals/Plastics</i>
Sept 24	10%, 25% (1/19) tariffs on \$200B imposed <i>\$13.2B Chemicals/Plastics</i>	5% and 10% tariffs on \$60B imposed <i>\$8.8B Chemicals/Plastics</i>
Cumulative	\$250B <i>\$15.4B Chemicals/Plastics</i>	\$110B <i>\$10.8B Chemicals/Plastics</i>
What's left?	\$505B total goods - \$250B= \$255B exposed to additional tariffs	\$120B total goods - \$110B= \$10B exposed to additional tariffs

Collateral Damage from U.S. Section 301 as Retaliatory Tariffs Destroy External Demand



\$1.8B

Tariff burden on U.S. chemical and plastic exports to China

Reduction in exports to China

Best Case



15%

Worst Case

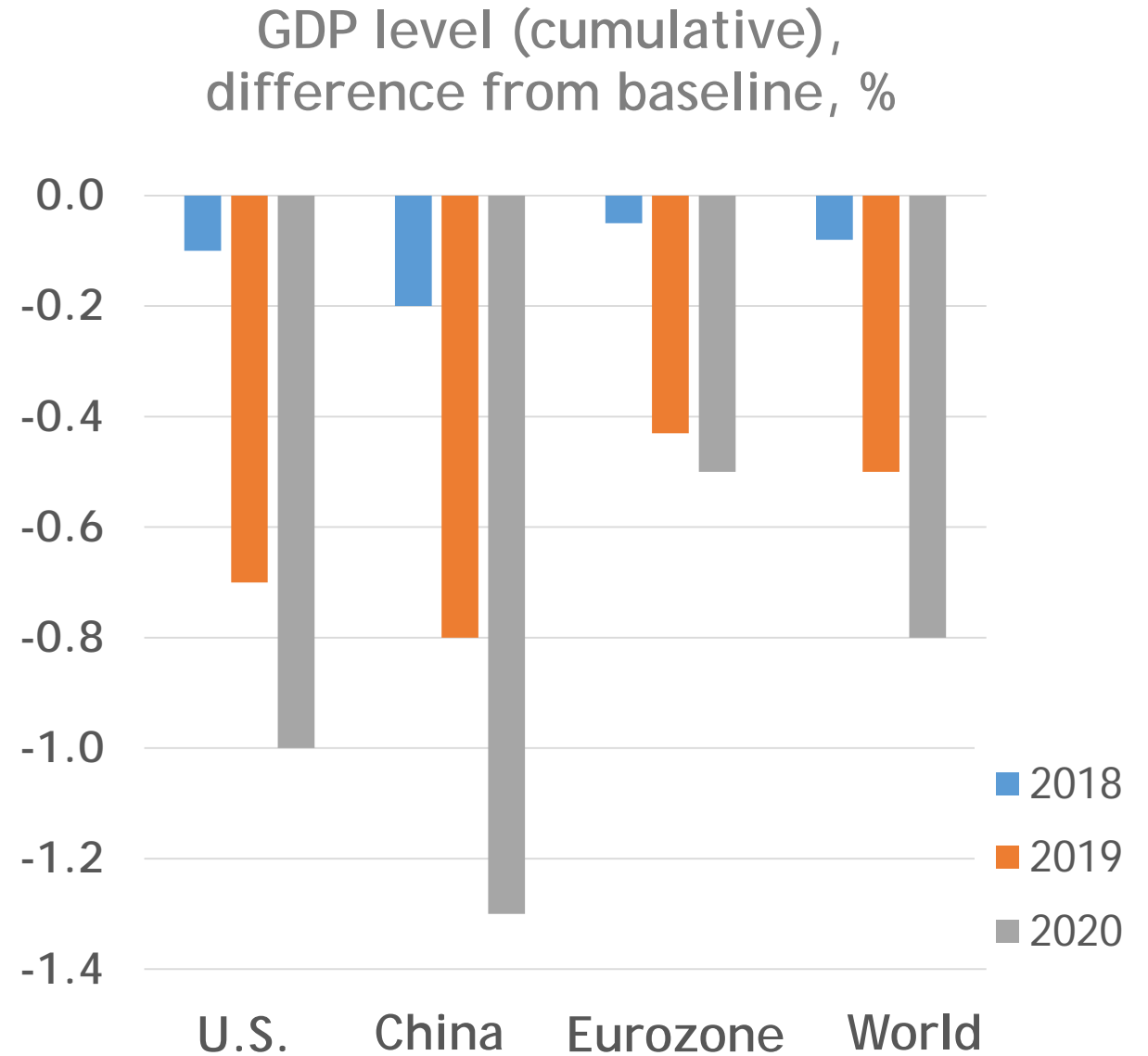


56%

*Loss of up to 55k jobs
and
\$18B in US economic output*

ECONOMIC IMPACT OF US-CHINA TRADE WAR

*OE assumptions:
25% tariffs on US\$50 B
+
10% tariffs on US\$400B
+
Response from China that
causes equivalent impact*



Source: Oxford Economics, 8/23/18

WTO WITHDRAWAL

Administration wants to reform the
WTO but also has threatened to
withdraw

Serious ramifications

Withdrawal would grant
the Administration
unilateral authority to
raise any/all tariffs
(up to Smoot-Hawley levels)

Opens the door to Retaliation



Bottom Line for the U.S. Chemicals Sector:

**Higher tariffs, possibly better rules, not
enough new market access**

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