

Introduction

Free trade is increasingly under pressure. In this position paper ICTA expresses its support for international free trade. It argues that what we need in an increasingly volatile and ambiguous world, is more trade, not less. Governments across the world should work towards free, fair and sustainable trade underpinned by a global rules-based trading system.

ICTA represents chemical distribution companies that enable global chemical supply chains. As 95 % of all physical products involve use of chemicals, chemical distributors provide an essential role in the global economy. They provide the molecules needed for amongst other food, healthcare, construction and transport. Chemical distributors provide chemicals across borders and industries and enable innovations towards safety and sustainability. New barriers to trade have made it more difficult for chemical distributors to undertake their important work.

Benefits of free trade

As standard economics theory of real-world experience teaches us, free trade offers significant benefits:

- Chemical producers can specialize in producing those chemicals where they have a lower opportunity cost (i.e. a comparative advantage), leading to an increase in overall economic welfare;
- Chemical producers face more competition, which can lead to cost-cutting, increased efficiency and innovation;
- Chemical producers can specialize which allows them to benefit from economies of scale;
- Customers can switch from high-cost producers to low-cost producers, leading to lower prices;
- Customers can choose a greater variety of goods as they gain access to products from different countries.
- Technology can cross borders more easily, accelerating improvements in chemical manufacturing processes.
- Supply chains become more resilient. Well-functioning global supply chains can deal with shocks and quickly ramp up production. For example, international supply chains dealt better with the shock from Covid-19 than governments did.¹ Initiatives by policymakers to increase the resilience of supply chains will likely do more harm than good.^{2 3} These initiatives have protectionist effects and can lead to retaliation by other countries, creating a downward spiral and more vulnerable supply chains.

When promoting free trade, governments should be aware of potential drawbacks. Often, loss of jobs is seen as the most important risk of free trade. However, its effects seem limited. Despite some localized hardships, the loss of US jobs to China is really a rounding error for the US workforce overall.⁴ So while loss of jobs provides no convincing argument against free trade as such, policymakers should have eye for local negative effects of free trade, for instance by supporting local workers with retraining.

Situation

Acknowledging the benefits of international trade, policy makers have worked hard to reduce tariffs since the end of the second World War.⁵ As a result, the average applied global weighted tariff fell from 22-40 % in 1947 to 2-5 % in recent years.⁶ This has reduced the cost of goods, including chemicals, across the world and significantly improved living standards.

¹ Economist 'Are free markets history?'

² The European Commission, for example, identifies a need "to promote EU's strategic autonomy for essential chemicals", see Roadmap for chemicals strategy for sustainability, May 2020, [here](#)

³ FT View, 'The WTO is needed today as much as ever', 18 May 2020

⁴ Economist, 'New industrial policies will make the world more unequal', October 2023

⁵ World Trade Organisation (WTO), 2017, "Making Trade an Engine of Growth for All"

⁶ Chad Brown and Douglas Irwin, 2015, "The Urban Legend: Pre-GATT Tariffs of 40%", VOX, <http://voxeu.org/article/myth-40-pre-gatt-tariffs>.

However, trade is projected to grow at a slower average rate than GDP through 2031, reversing the pattern of trade-led global growth that has prevailed in recent decades.⁷ Recent data shows that the share of intermediate goods in world trade is declining and that complex supply chains may have reached their high-water mark. Other data suggest that trade may be reorienting along regional and political lines.⁸

Several recent developments have harmed faith in the free trade system and may have long time effects by negatively influencing investments decisions:

- Trade disputes between the US and China have resulted in a declining in bilateral trade since 2021.⁹
- Protectionist measures have created uncertainties in world markets and triggered measures and countermeasures. This trend has been greatly exacerbated by the Covid-19 pandemic and the Ukraine war. For example, at least 72 countries responded to Covid-19 by issuing export restrictions¹⁰.
- Politicians are promoting nationalistic ideas of protecting national markets.

There are many ways in which policymakers can take protectionist measures to hamper free trade, including:

- Import tariffs: extra tax on imported products;¹¹
- Export subsidies: subsidize products from own country to stimulate cheap exports;
- Import quota: setting a limit on quantities of certain products that maybe imported;
- Export restrictions: limitations on the quantity of goods exported.
- Non-tariff barriers: such as domestic content requirements, discriminatory procurement procedures, and high product standards that can result in a de facto blockage of certain imports.

In response to this, many companies, including chemical distributors, are already changing their operations. They are improving the responsiveness in the value chain, reshoring (to make supply chains shorter), building up buffer inventories of essential commodities and prequalifying alternative suppliers. They are also developing supplier relationships in different global regions.^{12 13} Chemical distributors, in particular, specialize in making supply chains more resilient. They need the flexibility and adaptability of global supply chains to maximize this resilience.

Policy recommendations

Do not restrain international supply chains

As noted, it is a fallacy to argue that supply chains would be safer if they were more domestic and less international. Chemical supply chains in particular benefit from optimization across the globe, given the often high investments required, the complexity of production processes and the wide variety of chemical raw materials and (semi-)finished products. In particular ICTA urges policymakers to:

- Refrain from implementing new tariffs, export restrictions and import quota, and remove existing ones;
- Eliminate existing non-tariff barriers¹⁴;
- Join the voluntary Chemical Tariff Harmonization Agreement;
- Develop common principles to ensure that national and regional approaches to sustainability (e.g. extended producer responsibility, recycling, circularity, and carbon border adjustments) do not amount to non-tariff barriers;¹⁵

⁷ BCG Protectionism, Pandemic, War, and the Future of Trade, January 2023

⁸ WTO 'Global Trade Outlook and Statistics', October 2023

⁹ Reuters 'U.S., China set for talks as they bring trade closer to shores', August 2023

¹⁰ WTO information note, Export prohibitions and restrictions, see [here](#)

¹¹ In relation to the EU's carbon border adjustment mechanism ICTA emphasizes the need to minimize trade distortions and avoid disguised restrictions on international trade with reference to article 3.5 of the UNFCCC.

¹² BCG Protectionism, Pandemic, War, and the Future of Trade, January 2023

¹³ Economist 'Homeland Economics', October 2023

¹⁴ IOE 'Position Paper on Understanding Trade', July 2020

¹⁵ ICCA Recommendations on Modernization of WTO, September 2021

- Notify any new export restrictions and other trade measures to the WTO pursuant to the QR Decision¹⁶. The WTO should then swiftly make the information available to the public¹⁷; and
- Promote foreign direct investment and international respect for intellectual property.

Refrain from precautionary regulations

Countries are introducing ever higher product standards. For chemical substances and mixtures, many countries require extensive reports of products' characteristics. Referencing the precautionary principle, they also introduce safety and quality regulations for the chemical with perceived risks, even if evidence for these risks is largely absent. Such regulations often constitute a form of disguised protectionism by in effect denying market access to foreign products. International agreement on environment, health, and safety regulations would guarantee a level playing field, benefitting in particular small and medium-sized businesses.

Therefore, ICTA urges policymakers to:

- Develop regulations only based on a science-based and risk-based approach using a balanced risk assessment grounded in sound science and internationally accepted standards;
- Consider the realities and production methods and prevent discrimination or disguised restrictions on trade, as implied by paragraph 32 of the Doha Ministerial Declaration;
- Perform an impact analysis of each new precautionary regulatory proposal to make sure that it does not cause unintended disruption of supply chains;
- Prioritize the work on regulatory cooperation by WTO Technical Barriers to Trade Committee;
- Promote regulatory cooperation and convergence on chemicals and transport, including support for implementation of the UN TDG¹⁸, GHS¹⁹, MAD²⁰ and TIR²¹.

Revitalize WTO

The WTO strives to drive global economic growth, enforce trade agreements, and grow international trade and investment. It wants to develop enforceable rules based on evidence-based policy, helping to ensure a level playing field and promote competition. ICTA strongly supports a multilateral trading system under WTO.

ICTA urges WTO and its member states to implement reforms and to:

- Expand multilateral discussions at the WTO Committee on Trade and Environment and other relevant international bodies;
- Restore the quorum in the WTO Appellate Body to reinstate the two-step dispute settlement process.
- Revise and improve the WTO working processes to allow proactive negotiating in the areas of sustainability, digital trade, investment facilitation, and new rules.²²
- Formalize mechanisms for receiving input from civil society and industry, including consultations of at least 60 days;
- Create disciplines in areas that did not exist 25 years ago, such as e-commerce and digital trade (including data privacy and cybersecurity);
- Move away from the principle of consensus, which has hindered negotiations, especially as the WTO has grown;

¹⁶ Decision on Notification Procedures for Quantitative Restrictions, 2012

¹⁷ BDI, Export controls and export bans over the course of the Covid-19 pandemic, see [here](#)

¹⁸ United Nations Transportation of Dangerous Goods

¹⁹ Globally Harmonized System of Classification and Labelling of Chemicals

²⁰ OECD Mutual Acceptance of Data system

²¹ Convention on International Transport of Goods Under Cover of TIR Carnets

²² ICCA Recommendations on Modernization of WTO, September 2021

- Conclude negotiations for the Environmental Goods Agreement that would eliminate tariffs on a number of important environment-related products. Negotiations were launched in 2014 but none have taken place since 2016.²³
- Re-commit to the WTO Trade Facilitation Agreement to help remove regulatory hurdles and bureaucratic inefficiencies; and

Free trade and free trade agreements

Given WTO's challenges, regional blocs²⁴ and bilateral trade agreements are more and more frequent, thereby threatening the relevance of the WTO. While regional and bilateral trade agreements allow for increased market access and reduced tariffs, they raise concerns about the negative impacts on non-participating (often smaller) economies that now face an uneven playing field. Having multiple bilateral trade agreements may also create complex differing terms across different trading partners and regionalisation of global trade rules.²⁵ As such, it is important to ensure that more countries are involved in these agreements so as to maximize the benefits of trade liberalization. For instance, an OECD simulation showed a doubling of GDP when an regional trade agreement involving only high-income Asian economies was expanded to include all Asian economies.²⁶

These voluntary plurilateral initiatives should not require total consensus, but establish new criteria for reaching critical mass and advancing discussions and negotiations aligned with WTO principles

Conclusion

The solution lies in more trade, not less. ICTA firmly believes in the ability of international supply chains to provide goods efficiently. It stands for free trade and promotes the level playing field. Chemical distributors provide the products and solutions to improve global wellbeing and achieve a wide range of societal objectives. Precautionary regulations and government-induced localization of supply will further disrupt chemical supply chains.

ICTA therefore calls on WTO and policymakers worldwide to reinvigorate the global free trade system. Renew the global commitment towards free trade under the WTO's rules-based multilateral trade system and/or through regional or plurilateral agreements. This would allow the chemical distribution industry to further expand its contributions to the UN Sustainable Development Goals.

ICTA

The International Chemical Trade Association represents the chemical distribution industry and promotes the safe and sustainable use of chemicals. The chemical distribution industry has an important role in enabling chemistry to make a positive impact, while managing the associated risks. Aside from taking responsibility for the safety of their own operations, chemical distributors interact with their customers and suppliers to maximize risk management measures and safe use. For more information visit www.icta-chem.org.

²³ Marianne Schneider-Petsinger, 'Reforming the WTO', September 2020

²⁴ Such as the European Union (EU), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the African Continental Free Trade Area (AfCFTA)

²⁵ ORF 'Effective WTO has to be equitable and transparent', May 2023

²⁶ IOE 'Position Paper on Understanding Trade', July 2020, p.26