

GPCA recommendations on modernization of the World Trade Organization (WTO)

POSITION PAPER

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Since its establishment in 1995, the World Trade Organization (WTO) has played a vital role to ensure trade flows as smoothly, predictably, and freely as possible. The Gulf Petrochemicals and Chemicals Association (GPCA) and its members strongly support the WTO and its efforts to drive global economic growth, enforce trade agreements, advance global objectives (e.g., sustainable development), and grow international trade and investment. It is also imperative to note that the GCC states are all members of the WTO and invested in ensuring its success. As the leading regional downstream hydrocarbons industry, serving markets around the globe, we support and prioritize multilateral approaches to trade, particularly with respect to addressing the ongoing, global COVID-19 pandemic disruptions. Multilateral approaches enable a common set of enforceable rules, which ensure a leveled playing field and restore competition based on quality, not discriminatory policy.

However, the WTO faces challenges in achieving multilateral commitments from its members on further trade liberalization and emerging trade rules. To progress forward, the chemical industry needs an enabling legal framework, and free access to global markets, which means the removal of tariff and non-tariff barriers. Nevertheless, the chemical industry still faces costly tariffs, unclear rules of origin, discrepancies between national legislations, multiple and differing standards, limited protection of trade secrets as well as trade defence measures.

With the ongoing outbreak of the COVID-19 pandemic, countries have further inclined towards deglobalization strategies to protect the interests of their local businesses and economies. Thus, several WTO members and the private sectors are pressing for necessary reforms to restore certainty, progress, and leadership in the WTO. The IMF and the WTO have urged countries not to impose export and trade restrictions, as such measures disrupt supply chains and depress production – which prolongs the health and economic crisis. GPCA and its member companies have also called for the reduction of tariffs and the removal of trade barriers, and all bureaucratic hurdles currently in place that pose a significant challenge to the steady supply of chemical and petrochemical products used, especially in the manufacturing of specialized equipment and everyday products amid heightened global demand. These critical raw materials are also now enabling the development, production, and logistics of vaccines, so critical in our fight against this deadly virus.

In 2019, GCC chemical exports grew by 6.4% reaching 82.5 million tons. We forecast GCC chemical export volumes to decline by 15% - 20% in 2020 reaching 66-70 million tons due to significant demand disruptions in chemical supply markets because of the pandemic. We forecast GCC chemical trade to grow by up to 10% in terms of volume in 2021. The current 5 year forecast for GCC chemicals trade is to grow by 3% - 5% per annum. However, under an appropriate international policy framework, there is a strong potential for the industry to further expand and cater to the constantly growing global population.

Under the umbrella of the GCC Secretariat, the Office of the Technical Secretariat for Anti-dumping strives to:

- » protecting the regional industry from harmful practices in international trade to enable it to raise its competitive and export capabilities, and
- » strengthening the relationship with the World Trade Organization and anti-dumping agencies in regional and international organizations

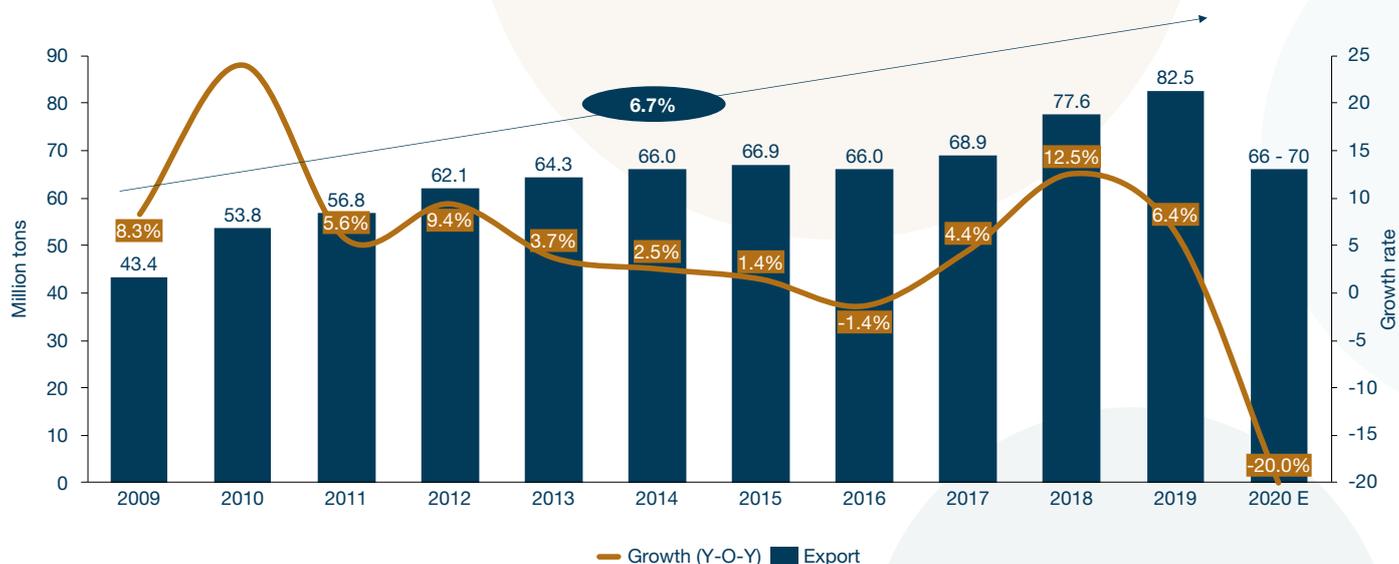
The regional industry wholeheartedly supports the GCC Secretariat's efforts to underpin the internationalization of businesses in the Arabian Gulf and further liberalize trade, via bilateral or regional trade agreements such as the GCC-Singapore and GCC-EFTA Free Trade Agreements [1], or preferably via multilateral trade agreements through the support of the WTO.

Towards the discussions on WTO modernization progress, we offer the following recommendations:

1. WTO modernization discussions should address both process (reform) and substance (negotiations)

As the WTO has grown, principles of unanimity have made negotiations next to impossible to achieve, especially as members have focused on domestic interests over global opportunities; and as commitments to the working process of the WTO have weakened. The WTO needs to reinvigorate not only the process (e.g., dispute settlement, transparency, and stakeholder engagement), but also renew engagement on proactive negotiations that drive multilateral trade policy (e.g., Digital Trade/ E-Commerce and investment facilitation). This engagement must include emerging economies that will drive future global economic growth.

Figure 1: GCC Chemical Exports (Million Tons and % Growth Rate)



Note: 2018 is revised, 2019 is preliminary, 2020 is estimated
Source: UN Comtrade, 2020

Necessary reforms should include:

- i. **Fixing the WTO Dispute Settlement Understanding (DSU).** The existence of agreed rules on cross border trade, monitored by the WTO and enforced through an impartial system for resolving disputes had previously helped to defuse trade tensions and avert trade wars. However, the development of new rules on trade has not happened in sync, with economic, political, and technological changes [2]. Thus, a successful WTO that is valued by members will require clarifying and refining how the dispute settlement function works in practice. A necessary first step should be for all Members to agree on the necessary reforms to allow the Appellate Body to function at full capacity as soon as possible.
- ii. **Making measures more transparent.** During the COVID-19 pandemic, WTO Members have issued a wide-range of new trade-distorting measures, particularly in export restrictions, which has significantly impacted the chemical industry’s value chain. Many WTO Members did not notify these measures to the relevant WTO Committees or offer stakeholders the opportunity to provide meaningful comment. For the WTO to remain relevant to civil society and industry and function optimally, Members must make their measures as transparent as possible. New WTO commitments may be required to ensure this happens. WTO Members could also increase transparency by strengthening the systems of sharing notifications across Committees and with other Members through optimal and fit for purpose use of technology. This would also decrease the time Members and stakeholders spend on the review of measures.
- iii. **Supporting plurilateral negotiations.** Members should review the opportunity for willing countries to advance new negotiations and initiatives. It could be seen that due to the lack of the well-defined sanctions pertaining to negotiations, bilateral agreements are flourishing between nations. However, bilateral trade agreements are insufficient because they address only part of the needs of the chemical industry and are difficult to negotiate. Hence, supporting open, non-discriminatory, plurilateral initiatives offers the opportunity to move forward on critical issues, demonstrate progress in the negotiations pillar of the WTO, and set standards for further efforts by all members. These should not require total consensus but establish criteria for incorporating critical mass and advancing discussions and negotiations aligned with WTO principles. This would mandate a discussion on the existing Most Favoured Nation (MFN) principle, especially to avoid “free riders” in trade agreements.
- iv. **Opening new markets.** International markets today are not just about goods and services, but they are also about (and rely on) data. The WTO should promote consistent rules on digital trade, for example on allowing free flows of data across borders and prohibiting data localization requirements, considering, and ensuring data privacy.

- v. **Enhancing stakeholder engagement.** The WTO should formalize mechanisms for how civil society and industry are able to provide input into ongoing negotiations and committee work. These mechanisms can be modelled on good practices adopted by other organizations and processes (e.g., OECD and BIAC). Such mechanisms will enable the WTO’s monitoring and negotiating functions to avail themselves to the expertise and experience of civil society and industry – ensuring that WTO activities are fully connected to real-world trade experiences such as facilitating the use of alternative valuation methods in view of the commercial realities of the chemical sector, where final prices are only determined after physical import. Suggested mechanisms also include establishing a high-level business advisory council and granting observer rights in relevant working bodies of the WTO.
- vi. **Review and Improve WTO institutional performance.** WTO Members should ensure that all WTO Committees adopt the best practice of triennial reviews (e.g., in the TB Committee) for ongoing work to implement WTO Agreements. Such a committee-by-committee process of deliberation should include the Dispute Settlement Body – which can help re-build the trust needed for constructive, good faith engagement on substantive policy questions based on solutions-oriented proposals. Deliberations must be inclusive and engage the whole membership.
 - a. Regular assessment of the performance of the WTO as an organization – spanning both WTO Members and the Secretariat – will enhance transparency, improve best practices and operational performance, and improve information on implementation of WTO agreements.

The WTO should also consider ways for stakeholders to assess the performance of the WTO as an organization and its Members with respect to their implementation of WTO agreements.

Opportunities for negotiations include:

- i. **Investment Facilitation** – GPCA is encouraged that WTO members are engaged in negotiations on investment facilitation and would urge a focus on the business case for investment and not only on investment policies and incentive programs. Investment facilitation should focus on promoting the best enabling environment possible while also supporting more sustainable, circular economy investments by prioritizing the value-adding environmental and social elements of economic projects (e.g., investments that reduce greenhouse gas emissions as well as job creation).
- ii. **Digital Trade** – the chemical industry benefits substantially from digital investment to support advanced manufacturing. Digital trade based on the free flow of data across borders is critical to chemical manufacturers, which generate data for regulatory compliance, technical innovation, employee development, workplace safety, and global customer management. State-of-the-art provisions on promoting data privacy, enabling open cross-border data flows, prohibiting data localization requirements, and strengthening cybersecurity while respecting intellectual property rights will be critical. Data flows are essential for establishing and maintaining global value chains. They are, therefore, essential for strengthening manufacturing around the world and to the benefit of downstream industries that the business of chemistry supports (e.g., agriculture and autos). GPCA supports the ongoing negotiations including extending the moratorium on e-commerce transactions and urges the WTO to set practice for economically viable practices on data privacy, cybersecurity, and other digital trade matters.
- iii. **Tariffs** – WTO members should renew their collective commitment to trade liberalization through tariff elimination, including by expanding participation in sectoral tariff initiatives such as the Chemical Tariff Harmonization Agreement (CTHA). As the COVID-19 pandemic demonstrates, in a world with global supply chains, open borders for goods and the duty-free import of medicines and medical goods and their raw materials strengthen pandemic response. Therefore, interested WTO Members should start to negotiate on a trade liberalization agreement on healthcare products and their raw materials. Another initiative possibility would be to develop a global chemical sector agreement (“GCSA”). The negotiation of such an agreement could build upon the success of the CTHA and suggest the “multilateralization” of successful plurilateral cooperation, with the addition of disciplines that go beyond tariff harmonization [3].

2. The WTO Should Foster Regulatory Cooperation on Chemical Substances to Prevent Barriers to Trade

Restoring the WTO’s multilateral rules-making mandate would benefit from increasing engagement across key industry sectors. For example, GPCA’s International Trade Committee (ITC) has established a relationship with

regional regulatory bodies to discuss the issues pertaining to the regional downstream hydrocarbon industry. This takes place through annual leadership dialogues engaging all stakeholders. The aim of these dialogues is to discuss and share challenges and opportunities for collaboration between industry and regulators.

The WTO Technical Barriers to Trade (TBT) Committee has been a primary forum for advancing regulatory cooperation. We advocate for the WTO to place regulatory cooperation for higher on its modernization agenda. Higher prioritization would create a new opportunity for trade negotiators, regulators, and industry to negotiate better ways to prevent barriers to trade through greater regulatory transparency, data and information sharing, and the adoption of best practices.

3. More Transparency, Notifications, and Effective Enforcement of Commitments are Essential to WTO Modernization

WTO's objective is to make sure that its members are more transparent about their measures and GPCA is fully aligned with the mentioned objective. The TBT Committee has a leading role to play in ensuring transparency and notification. We recommend that WTO provides additional resources for helping its members make their measures as transparent as possible and to embrace a culture of pre-initiation to discussions or notifications where they provide at least 60 days for interested parties to comment and provide meaningful feedback. WTO can increase its efforts to prevent barriers to trade through greater transparency and notification. Importantly, WTO members should comply with their existing transparency commitments in full, particularly under the TBT Agreement.

4. The WTO Should Create a Negotiating Agenda to Support Sustainability

The trade agenda encompasses a wide range of commercial activity, including emerging areas of opportunity and application of products, services, processes, and goods that can contribute to further multilateral goals, such as the environmental agenda, the UN Sustainable Development Goals (SDGs), and fostering greater economically and environmentally sustainable innovation. The WTO should work with members to identify and promote an enabling agenda that encourages further investment; and streamlines access to third country markets worldwide in support of deployment and implementation of these products and technologies. WTO members should avoid restrictive or punitive policies that discourage innovation.

For example, an enabling agenda should:

- » Build a common global definition of environmental materials and environmental goods
- » Eliminate tariff and non-tariff barriers on environmental materials and environmental goods
- » Promote a value chain approach to managing waste
- » Identify public policies and governmental programs that can spur innovation and investment in sustainability-related technologies
- » Encourage public-private sector dialogue to identify specific challenges and barriers to building sustainable products and processes; and
- » Engage policymakers on regulatory and policy obstacles to innovation and adoption of new technologies to maximize societal impact

Conclusion

GPCA believes that it is critical that WTO considers the above-mentioned recommendations in its modernization process, to cater to the current global economic, political, and technological changes/ challenges, which have been further accelerated by the COVID-19 pandemic. To help achieve this, the GCC chemical industry remains an enduring member to support the efforts of the WTO and to modernize it.

References:

[1] <https://www.economy.gov.ae/english/Ministry/MinistrySectors/ForeignTradeSector/Trade-Negotiations-WTO/Trade-Agreements/Pages/default.aspx>

[2] https://ec.europa.eu/commission/presscorner/detail/en/IP_18_5786

[3] <https://www.gpca.org.ae/2019/07/03/unlocking-the-potential-of-the-chemical-industry-through-a-global-sector-agreement/>

The Gulf Petrochemicals and Chemicals Association (GPCA) represents the downstream hydrocarbon industry in the Arabian Gulf. Established in 2006, the association voices the common interests of more than 250 member companies from the chemical and allied industries, accounting for over 95% of chemical output in the Gulf region. The industry makes up the second largest manufacturing sector in the region, producing over USD 108 billion worth of products a year.

The association supports the region's petrochemical and chemical industry through advocacy, networking and thought leadership initiatives that help member companies to connect, to share and advance knowledge, to contribute to international dialogue, and to become prime influencers in shaping the future of the global petrochemicals industry.

Committed to providing a regional platform for stakeholders from across the industry, the GPCA manages six working committees - Plastics, Supply Chain, Fertilizers, International Trade, Research and Innovation, and Responsible Care - and organizes six world-class events each year. The association also publishes an annual report, regular newsletters and reports.

For more information, please visit www.gpca.org.ae

Gulf Petrochemicals and Chemicals Association (GPCA)

P.O. Box 123055

1601, 1602

Vision Tower, Business Bay

Dubai, United Arab Emirates

T +971 4 451 0666

F +971 4 451 0777

Email: info@gpca.org.ae