



April 2015

## Riyadh Roundtable concept note:

# Opportunities for Strengthening EU-GCC trade in the Chemical Industry

## 1. Roundtable Background – The rationale

Almost everything we use today needs chemical products to be manufactured or to function. The Chemical Industry is one of the most important industries in the modern world. Chemical products are involved in almost every industrial process and are essential in industries such as agriculture, automobile and construction sectors.

The rise of globalisation and global value chains gives all countries an interest in keeping chemical import duties low and working towards greater harmonisation of standards and regulations.

In 2013, the Gulf Cooperation Council was the fifth largest trade partner of the European chemical industry, with a trade flow of €11 billion.

Trade between the two regions is very complementary, with the EU importing mainly petrochemicals and polymers from the GCC countries and exporting specialties and consumer chemicals. The EU has a positive trade balance of about 500 million euro.

An EU – GCC Free Trade Agreement therefore has the potential to allow for further trade expansion. Import duties on both sides are rather low and elimination of duties would further reduce the costs of trading. 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.

When the EU-GCC trade agreement was first proposed in the 1990s the trade scene was completely different. EU import duties on petrochemicals and polymers were still around 15% and the EU chemical industry feared increased imports from the GCC countries underpinned by dual pricing scheme for petrochemical feedstock. Meanwhile the European chemical industry is one of the most ardent supporters of free trade in the world. In the WTO Doha Round it calls for elimination of all chemical import duties by all countries having a viable chemical industry and the bilateral route to trade liberalisation is seen as a useful complement. No FTA is a priori excluded, provided certain principles are observed, such as liberalisation of all chemical tariff lines without exception, removal of non-tariff barriers to trade and elimination of export duties and export restrictions is provided for.

In the coming years both EU and GCC countries will face new realities in chemicals trade, with the build up of Chinese and Far East capacities that will fundamentally alter trade flows together with the investment boom in the USA on the wave of the shale gas boom.

A common understanding of the future development of chemical investment and trade trends will help identify opportunities for possible cooperation between the two regions.



## **2. Roundtable Focus – The agenda**

The Riyadh roundtable focused on EU and GCC cooperation in the Chemical Industry. It was chaired by the Secretary General of the Federation of GCC Chambers and included representatives from the main industry stakeholders in the GCC and the EU. Most notably, the Director General of Cefic and the Director General of GPCA as well as the Vice Chairman of SABIC were among the speakers. The EU Ambassador HE Adam Kulach also attended the roundtable meeting.

The roundtable discussions centered on the importance of opening markets and deepening EU and GCC trade. Dr Mandery, the DG of Cefic, stated that his organisation supports elimination of all tariffs and non-tariff barriers. He also praised the existing cooperation between GPCA and Cefic, stating that they meet regularly in different industry forums where they share best practices and collaborate on various issues.

Dr. Al Sadoun echoed the same message stating that as a predominantly export-oriented industry, the GCC Chemical Industry endorses Free Trade Agreements with major trading partners (EU, APEC, China, etc.) which is believed to be beneficial to all parties (chemical producers and customers). Al Sadoun also emphasized the importance of sharing best practices with EU chemical industry and developing the GCC downstream industries.

During the roundtable H.E. Ambassador Adam Kulach, explained the suspension of the European Union Generalized System of Preferences (GSP) and highlighted the major reasons towards these changes. He pointed that an FTA between EU and GCC would solve this problem by eliminating all tariffs.

## **3. Roundtable Results – Expected Recommendations**

The main outcome of the roundtable was consensus among industry players:

- Eliminate all tariff and non-tariff barriers for chemical products
- Ensure fair competition between foreign and domestic companies
- Push for trade liberalization between EU and GCC
- Importance of EU Chemical industry in GCC diversification in downstream industries