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**RE: Exports and Delaware's Economy**

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**Summary:** Delaware's export patterns indicate that Delaware's economy, as with the rest of the nation, is increasingly reliant on the production of technologically sophisticated products, such as pharmaceuticals. Delaware's potential for job growth depends upon its ability to provide highly trained workers as well as a tax structure that will attract firms engaged in research and development. Lastly, foreign trade barriers are hindering Delaware's exporters and merit attention.

## **What Are Some of Delaware's Major Exports?**

According to the U.S. Department of Commerce (based upon data from the DE international trade office<sup>1</sup>), the state's number one export in 2009 was pharmaceuticals, totaling \$1.5 billion. Despite the recession, Delaware's pharmaceutical exports grew nearly 26 percent from 2008 to 2009. If the 2010 first-quarter trend holds, we can expect to see additional growth of about 25 percent in 2010 compared to 2009.

One of Delaware's traditional products, plastics, comes in at number two, but at over \$500 million in 2009, this is significantly lower than the state's pharmaceutical exports. The recession appears to have had an impact on the state's plastics exports, as 2008 exports in this category were about \$620 million, which represented significant growth compared to the 2007 amount at about \$373 million. Although exports of these products dropped by 12.5 percent in 2009, the first quarter

2010 export amount appears promising, showing growth of just under 10 percent when compared to Q1 2009. Delaware's plastics exports largely consist of plastic films, strips, and sheets, and propylene copolymers.

Delaware's third ranking export is instrumentation for chemical analysis, at nearly \$500 million in 2009; however, this represented a drop from the 2008 amount of \$541 million, again, probably due to the recession. Q1 2010 exports (\$128 million) are down slightly from Q1 2009 \$129 million).

The state's processed petroleum exports dropped dramatically in 2009, reflecting the closure of the refineries. Exports of these products fell by over 55 percent, from over \$222 million in 2008 to \$98.4 million in 2009. We can expect further sharp declines in 2010, as Q1 2010 exports are down by about 93 percent.

Frozen chicken remains an important export at over \$103 million in 2009, but this sector also experienced a decline from the 2008 level of about \$118 million. Additionally, Q1 2010 exports (about \$21 million) are lagging behind Q1 2009 exports (\$23 million).

## **Delaware's Future is in Research-Intensive Production**

While acknowledging the importance of the state's traditional exports, it is clear that Delaware's strong showing in pharmaceutical exports indicates that its economic future is tied to research-intensive products. The planned conversion of the former Chrysler plant in Newark



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to a medical sciences facility as part of the expansion of the University of Delaware is a step in the right direction. But to enable as many Delawareans as possible to benefit from the growth in this sector, changes in the corporate tax structure and educational system are imperative.

## The Trade Barrier Factor

Delaware's export performance may be constrained by various foreign trade barriers, specifically those dealing with the pharmaceutical, chemical, and poultry industries.

**Pharmaceutical:** According to the recent report by the Office of the U.S. Trade Representative, pharmaceutical exports face significant intellectual property barriers. For example, India is a major producer and exporter of counterfeit medicines. These medicines, which perform poorly if at all, harm the person taking the drug as well as the brand reputation of the U.S. product. In a related issue, the Pharmaceutical Security Institute has identified China as a major manufacturer of unregulated active pharmaceutical ingredients, which ultimately end up in counterfeit drugs.

Another area concerns onerous procedures in certain countries (including China and Mexico) to approve patented medications for marketing within the country. In some countries, including Russia, Turkey, and Argentina, there is lax protection for sensitive data submitted by the U.S. pharmaceutical company to the agency responsible for product approval.<sup>ii</sup>

**Chemicals:** In 2007, the European Union (EU) issued a wide-ranging scheme to regulate chemicals, known as "REACH." According to the U.S. Trade Representative's office:

REACH impacts virtually every industrial sector, from automobiles to textiles, because it regulates

chemicals as a substance, in preparations, and in products. It imposes extensive registration and testing and data requirements on tens of thousands of chemicals.<sup>iii</sup>

November 30, 2010 will be an important milestone – it is the first deadline for companies to register their chemicals (subsequent deadlines will occur on the same day in 2013 and 2018).

Two research toxicologists (one is a professor at Johns Hopkins University) estimate that it will cost the chemicals industry \$13.6 billion in this decade to comply with REACH's requirements, including the use of 54 million laboratory animals.<sup>iv</sup> This estimate is based upon the expectation that 68,000 chemicals will be registered by 2018. Adding to these concerns is that the EU evaluation system may be unable to handle the flood of applications, ensuring that approvals will take many years. An analyst at the Competitive Enterprise Institute notes that under the pre-REACH system, it took the EU ten years to approve a chemical.<sup>v</sup> According to the toxicologists, the number of substances pre-registered in 2008 for REACH consideration hugely exceeded expectations, with 2.7 million pre-registrations submitted for more than 140,000 substances, instead of the predicted 180,000 registrations for 29,000 substances. Further, REACH requires a two-year animal testing process, which is estimated to involve 3,200 animals *per chemical*.<sup>vi</sup> Although the EU has issued a "clarification" on the animal testing issue, it remains a cause for concern.<sup>vii</sup>

Among the other barriers posed by REACH regulations is the requirement that all firms must have a legal EU presence in order to register a chemical. If a firm lacks a presence or does not want their EU downstream user to register the chemical, the firm will have to hire a



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representative, which adds to the cost of registration.<sup>viii</sup>

The basis for REACH is the ‘precautionary principle,’ which abandons the notion of comparing the risks of a product with its benefits. This principle assumes instead that the product is dangerous, requiring its producer to prove that it is safe at all times and under all situations. It favors banning a product if it involves any amount of risk, no matter how tiny or however great the benefit. It also should be noted that some members of Congress agree with the EU’s regulation and seek to replicate REACH in the United States.<sup>ix</sup>

**Poultry:** According to the 2010 report on foreign regulatory barriers to U.S. exports of agricultural products,<sup>x</sup> numerous countries have imposed such barriers against U.S. poultry. Most notably, the European Union has been blocking U.S. poultry products since 1997, citing concerns over certain ‘pathogen reduction treatments’ (PRTs) for poultry meat that are widely accepted in the United States. PRTs reduce the amount of microbes in meat, which enables exporters to ship meat that will be fit for human consumption at its destination. Thus, by banning PRTs, the EU has effectively banned U.S. poultry imports. This matter is currently at the World Trade Organization in Geneva; the United States is arguing that the EU’s refusal to approve PRTs is not based upon sound science.

Additionally, India has banned imports of U.S. poultry since 2007 citing an outbreak of a low-grade form of avian flu, but without providing science-based evidence for the ban. This growing market has been effectively closed to U.S. poultry producers. The United States and India are parties to a multilateral agreement that has a code for international trade in animal products. The code states that the importing country should not set an import standard for animal diseases that is higher than its own domestic standard, and any regulations that go beyond the multilateral standard must be based on a risk analysis.

Although Russia has lifted its ban on certain imports of U.S. poultry, including poultry from Delaware in June 2010, as political winds shift, it is possible that the ban could be reinstated. Russia, formerly a large market for U.S. poultry products, effectively had closed its market to the United States on January 1, 2010 by banning imports of poultry meat that have been washed in chlorine (a U.S. accepted safety practice for decades). Russia also had banned imports of poultry that had been frozen for more than three months.

Credits: Rebecca Faber, Delaware World Trade Center; John Pastor, International Trade and Development office of the Delaware Secretary of State; Matthew Johns (intern), Wilmington University.

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<sup>i</sup> Also see the U.S. Department of Commerce’s U.S. Census Bureau publicly available trade data for Delaware at <http://www.census.gov/foreign-trade/statistics/state/data/de.html>, however, it must be noted that this data includes products (such as bananas) that are transiting through Delaware for shipment to foreign ports.

<sup>ii</sup> Office of the U.S. Trade Representative, 2010 Special 301 Report, <http://www.ustr.gov/about-us/press-office/reports-and-publications/2010-0>.



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<sup>iii</sup> Office of the U.S. Trade Representative, 2010 Technical Barriers to Trade Report, March 31, 2010; also known as the “2010 TBT Report”, <http://www.ustr.gov/about-us/press-office/reports-and-publications/2010-0>.

<sup>iv</sup> “Chemical-safety costs uncertain”, *Nature News*, 2009, <http://www.nature.com/news/2009/090826/full/4601065a.html>.

<sup>v</sup> “Hazardous to Your Health”, *National Review*, September 24, 2009, <http://article.nationalreview.com/407506/hazardous-to-your-health/angela-logomasini>.

<sup>vi</sup> “Reach costs set to spiral”, *Chemistry World News*, August 27, 2009, <http://www.rsc.org/chemistryworld/News/2009/August/27080901.asp>.

<sup>vii</sup> 2010 TBT Report.

<sup>viii</sup> 2010 TBT Report.

<sup>ix</sup> Senator Barbara Boxer (D-CA), Opening Statement, Senate Committee on Environment and Public Works hearing, April 29, 2008, [http://epw.senate.gov/public/index.cfm?FuseAction=Hearings.Statement&Statement\\_ID=330de9a0-6ac1-4e54-813b-ca7ef5320013](http://epw.senate.gov/public/index.cfm?FuseAction=Hearings.Statement&Statement_ID=330de9a0-6ac1-4e54-813b-ca7ef5320013).

<sup>x</sup> Office of the U.S. Trade Representative, 2010 Report on Sanitary and Phytosanitary Measures, March 21, 2010, also known as the “SPS Report,” <http://www.ustr.gov/about-us/press-office/reports-and-publications/2010-0>.

