Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

CAFTA ACCA
Canadian Agri-Food Trade Alliance | Alliance canadienne du commerce agroalimentaire

Background: the Trans-Pacific Partnership (TPP)

Early negotiations for what would become the TPP began with four countries in 2006, which would grow to 12 members by 2013. Canada joined the TPP trade negotiations in 2012.
The TPP is an Asia-Pacific regional trade deal that also includes the United States, Japan, Mexico, Malaysia, Vietnam, Australia, New Zealand Singapore, Chile, Peru and Brunei. Negotiations concluded in 2015 and the TPP was subsequently signed in 2016 by all 12 State Parties.

The TPP was one of the most significant free trade agreements (FTAs) initiatives around the globe. The TPP represented a Gross Domestic Product (GDP) of US$21 trillion, 40 per cent of the global economy, and 25 per cent of the global value of trade.[1]

With a market of 792 million people, the region accounts for over 65 per cent of Canada's agri-food exports and presents significant potential for growth for Canadian agriculture and agri-food exporters.

From the TPP to the CPTPP

In January 2017, under the leadership of its new President, the United States formally withdrew from the TPP. Due to the rules and procedures for implementation of the TPP, the TPP could not enter into force without the U.S. This left the remaining 11 members of the deal to try to find a path forward, which led to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Less than a year after the U.S. withdrawal, the 11 remaining members agreed to a revised trade agreement on Jan. 23 2018 that would forge ahead without the U.S. The pact was rebranded to become the CPTPP.

Negotiations for the CPTPP concluded on January 23, 2018 in Tokyo, Japan and includes much of the original content of the TPP. The CPTPP was signed on March 8 at a ceremony in Santiago, Chile that was attended by International Trade Minister François-Philippe Champagne and the 10 other trade ministers from the CPTPP countries.

Overall Benefits

The agreement secures access to a region which has a combined GDP of $13.5 trillion, and, once implemented, will make Canada the only G7 country with free trade access to the Americas, Europe, and Asia-Pacific. Total bilateral trade between Canada and the CPTPP region amounted to $105 billion in 2016, which is equal to 8.1 per cent of Canada's total trade.

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[1] House Standing Committee on International Trade, *The Trans-Pacific Partnership Agreement: Benefits and Challenges for Canadians*, 2017.

In particular, the CPTPP retains the same rules and market access outcomes and most of the provisions of the TPP. This includes the reduction of tariffs that is expected to result in savings of $428 million a year for Canadians.[2] Further, 22 provisions have been suspended or changed, largely in areas which were priorities for the U.S. such as investment and intellectual property.

Once the CPTPP enters into force, it will be one of the largest FTAs in the worlds with 11 countries representing almost 500 million people and a combined GDP of $13.5 trillion, or 13.5 per cent of global GDP.[3] The gains from the CPTPP will benefit many sectors including financial services, fish and seafood, metals and minerals, and agri-food.

The CPTPP is expected to bring greater economic benefits for the region over the TPP. In particular, the CPTPP is expected to increase exports among the partners by 2.43 per cent, increase exports to non-CPTPP parties by .23 per cent, and generate economic welfare benefits of C$22 billion by 2035[4]. Most of all, the CPTPP is also expected to bring greater economic benefits for Canada over the TPP, with GDP gains of $4.2 billion under the CPTPP versus only $3.4 billion under the TPP[5].

Outcomes for Canadian Agri-Food Exporters

In 2017, Canada exported about $8 billion in agri-food to the CPTPP region.
The CPTPP will provide unprecedented and preferential access to large and fast-growing markets in the Asia-Pacific.

On entry into force for Canadian agriculture:

- Japan will eliminate 32 per cent of tariff lines,
- Vietnam will eliminate 31 per cent of tariff lines (67 per cent within 15 years),
- and Malaysia will eliminate 92 per cent of tariff lines.
- Beyond tariffs, the TPP also sets a new Asia-Pacific framework for trade with rules to increase cooperation and transparency on non-tariff barriers related to sanitary and phytosanitary measures, biotechnology and plant health.

The unprecedented access is expected to boost exports of Canadian agri-food products in the region and support growth, job creation and stability across rural and urban communities.

A sample of CAFTA members' projections of the opportunities seen to be provided by the former TPP include:

- For **canola**, better trade security, more value for their products and increased exports by up to $780 million per year;
- For **pork** producers, preferential access ahead of non-TPP competitors, ability to compete in the billion dollar Japanese market where exports could climb by $300 million;
- Canadian **beef** producers expect to double or triple annual exports to Japan to nearly $300 million;
- Canadian **barley** producers could export an additional 400,000 to 500,000 tonnes of barley in various valued added forms worth about $100 million;

[2] Global Affairs Canada, *Economic impact of Canada's participation in the CPTPP*, 2018.
[3] Global Affairs Canada, *Economic impact of Canada's participation in the CPTPP*, 2018.
[4] Canada West Foundation, *The Art of the Trade Deal: Quantifying the benefits of a TPP Without the United States*, 2017.
[5] Global Affairs Canada, *Economic impact of Canada's participation in the CPTPP*, 2018.

- The TPP will create new opportunities, provide a more secure trading environment, level the playing field in countries that have FTAs with members but not Canada and preserve current exports: this for 1.5 million tonnes of premium **wheat** exported to Japan, $2.3 billion dollars of grains and special crops to Japan, Malaysia and Singapore, $884 million dollar of **soybean** exports to TPP markets and $340 million dollars of **pulse** exports.
- As for Canada's **sugar** and **sugar-containing** products sector, the TPP provides welcome, though small quota increases into the restricted US sugar market.

Notably, as Canada no longer will have to compete with the United States in CPTPP markets, the CPTPP will means even greater benefits for Canadian agri-food exports over the TPP.

According to a recent research report commissioned by CAFTA: CPTPP outcomes are dominated by agri-food export gains, which is in part that CPTPP parties account for a disproportionately important share of Canadian agri-food exports at 16.58 per cent, versus only 4.64 per cent of total goods and services.[6] Total agri-food exports to the CPTPP region rise by $1.5 billion or by 12.45% over and above what they would have been without the CPTPP.[7] The most substantial gains are expected to be in beef ($568 million); following by fruit and vegetables ($345 million); processed foods ($237 million); pork (over $200 million); and beverages and tobacco ($100 million).[8] Although oilseeds and vegetable oils will gain ($17.7 million), substantial gains will come from the elimination of tariffs on canola products. This is because Japan currently has steep tariffs on Canola products, which when eliminated under the CPTPP will lead to major increases. Overall, agri-food sales are expected to rise by a total of $1.84 billion.

Key Markets

Japan, Malaysia, and Vietnam are regarded as key CPTPP markets for agri-food products, where Canadian exporters currently face high tariffs and no preferential access. In 2017 alone, Canada exported approximately $4.9 billion in agri-food products to these three markets, which amounts to 61 per cent of total agri-food exports to the CPTPP region.

Japan:

- Japan is expected to account for 93 per cent of agri-food export gains, followed by significant gains in Vietnam, and modest gains in Malaysia.
- Japan has a population of 127 million, is the third-largest economy in the world, the fourth-largest importer of agri-food products in the world, and Canada's third-largest agri-food export market.
    - Japan, as the third-biggest export market, is the big prize for Canadian agri-food exporter in the CPTPP. It is a high value and stable market, which imported more than $4 billion in agri-food products every year.
    - Japan has a food self-sufficiency rate of 38 per cent, which makes Japan heavily reliant upon agri-food imports.
    - In 2016, 41.6 per cent of Canadian agri-food exports were processed foods. The top processed foods include pork, beef, malt, and frozen fries.[9]

[6] Caught in the Cross-Fire: Canadian Agricultural Outcomes under Alternative Asia-Pacific Trade Scenarios; Ciuriak Consulting Inc, 2018.
[7] Ibid.
[8] Ibid.
[9] Agriculture and Agri-Food Canada, Outline of Opportunities in Japan, 2018.

- Canada's main competition for the Japanese agri-food market include the United States, China, Thailand, Australia, and the EU.

Vietnam:

- Vietnam's population reached about 95 million in 2017[10]. Vietnam was Canada's 13th largest agri-food export market in 2017.
- Vietnam has an important emerging middle class—currently accounting for 13 percent of the population and expected to reach 26 percent by 2026.
- Vietnam's GDP Annual Growth Rate in Vietnam averaged 6.50 percent from 2000 until 2018. According to a forecast by PricewaterhouseCoopers in February, Vietnam may be the fastest-growing of the world's economies.
- Although Vietnam has achieved a high-level of food self sufficiency, imports of agri-food products have been increasing.
- Top Canadian agri-food exports to Vietnam include wheat, soybeans, canola meal, and pulses.
- Vietnam is ranked third in the world in pork consumption after the EU and China.

Malaysia:

- Malaysia has a population of 31 million and was Canada's 29th largest agri-food export market in 2017.
- Malaysia's economy continues to perform strongly, with projected growth of 5.3 percent for 2018. Malaysia's economy is projected to expand at 5.1 per cent in 2019 and is expected to achieve high-income country status at some point between 2020 and 2024[11].
- Malaysia is heavily reliant upon food imports and faced a food crisis in 2008 after the importation of of staple food products in countries was disrupted.
- As a result of the 2008 food crisis, Malaysia has sought to increase its food security through measures of both food self sufficiency and increase access to new agri-food markets.
- Top Canadian agri-food exports to Malaysia includes soybeans, wheat, wheat flour, canola oil, and frozen fries.

FTAs in the Region

Once implemented, the CPTPP will Canada's second FTA in the Asia-Pacific region.

The Canada-Korea FTA, which entered into force in 2015, was Canada's first FTA in Asia.

Canada is currently in exploratory discussions for possible FTA negotiations with:

- Association of South East Asian Nations (ASEAN)
  - Members include Brunei, Philippines, Indonesia, Laos, Myanmar, Malaysia, Singapore, Thailand, and Cambodia
- China
- Philippines
- Thailand

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[10] http://www.worldbank.org/en/country/vietnam/overview
[11] https://www.imf.org/en/News/Articles/2018/03/07/NA030718-Malaysias-Economy-Getting-Closer-to-High-Income-Status

Multiple other FTAs exist in the region, which includes those which give preferential access to Canada's competitors into key markets.

- The preferential access brought by the CPTPP will help Canada to begin catching up in the fastest-growing region in the world where our competitors are already ahead of us.
    - Australia, Mexico, and Chile already have free trade agreements with Japan, and the EU and Japan completed FTA negotiations in December 2017.
        - The Japan-EU free trade agreement will cut 85 per cent of Japanese tariffs on European agri-food exports.
        - Japan is currently in negotiations with China and South Korea for a tri-lateral FTA.
    - Vietnam and Malaysia are both members of ASEAN, which have signed FTAs with some of Canada's major competitors China, South Korea, Australia, New Zealand, India, Chile, and Japan.
        - Vietnam and Malaysia are also parties in negotiations for the Regional Comprehensive Economic Partnership (RCEP), which includes ASEAN, China, Japan, South Korea, India, Australia, and New Zealand.
        - Vietnam also has bilateral FTAs with South Korea, Japan, Russia, and the United States.
            - Vietnam and the EU is expected to sign its negotiated FTA in 2018 and Vietnam is currently in FTA negotiations with the EFTA (Norway, Iceland, Liechtenstein, Switzerland).
        - Malaysia has bilateral FTAs with Australia, Chile, India, Japan, New Zealand, Pakistan, and Turkey.
            - Malaysia has launched FTA negotiations with the EU, EFTA, and the United States.

Ratification & Implementation

The agreement will enter into force 60 days after it's ratified by at least six members.

Each member of the CPTPP is now undertaking their own domestic processes to ratify and implement the agreement. In Canada, the government must table the CPTPP and table the implementing legislation, which will need to go before the House of Commons and Senate.

Reports indicate that the CPTPP is likely to be ratified by six of the agreement's members by fall 2018, enabling it to come into effect by the end of 2018 or early 2019.

The race is on as other CPTPP members are moving quickly to ratify the agreement:

- Mexico was the first country to ratify the deal late last April.
- Japan's Lower House recently passed the bill paving the way for ratification before the end of June.
- Australia tabled the treaty in its Parliament and vows to expedite ratification.
- Malaysia and Chile are both expected to ratify quickly.
- As the CPTPP depository, New Zealand's Trade Committee is conducting hearings and plans to implement quickly.
- Singapore, Peru, Vietnam and Brunei are all working to ratify the CPTPP by the fall.

Canada may lose the "first mover advantage" if it is not among the first countries to ratify. This means that If Canada's competitors ratify and implement the CPTPP before Canada, they will benefit from the initial rounds of tariff cuts and we won't, putting us at a further disadvantage.

CAFTA's Position

As one of the most steadfast and vocal supporters of the CPTPP trade agreement, CAFTA applauded the news in January that Canada concluded negotiations. We were in Chile when it was signed in early March, and we were very supportive when the treaty was recently tabled in Parliament.

CAFTA urges Canada to be in the first wave of countries to ratify the agreement in order to take full advantage of the initial tariff cuts. It should be understood that a failure by Canada to be among the first 6 to ratify the CPTPP would not result in status quo. Rather, it would constitute a needless reduction of Canadian competitiveness in the vital Asia-Pacific region.

In a statement issued following the signing of the CPTPP, CAFTA President Brian Innes stated, "Having preferential access for the first time to Japan, Vietnam, Malaysia and Singapore will fire up the agri-food sector's engine and move us toward the government's ambitious target of $75 billion in agri-food exports by 2025." The agreement will mean more stability and prosperity for Canada and now the Canadian government must move forward and make it happen.