



The Trans-Pacific Partnership – Positioning Canada and British Columbia for the Pacific Century

Highlights

- Signing the TPP is good news for Canada and British Columbia: there will be long-term commercial benefits and few drawbacks for BC. It will, however, take time for BC businesses to feel the full effects of the deal: elimination of some tariffs will take 10 years or more.
- The TPP region represents nearly 40% of global GDP and one third of all international trade. The broader scope of the TPP helps position BC and Canada to benefit from liberalized tariff structures and also to gain from common rules and standards relating to intellectual property, foreign investment, anti-corruption measures, and labour and environmental standards.
- Several key goods-producing sectors in the province’s economy will have improved access to TPP countries: forest products; aluminum, iron and steel products; seafood; agricultural products; and chemicals and plastics. BC suppliers of exportable services, such as engineering, research and development, environmental services, and professional and management consulting services, also stand to benefit.
- The TPP may expand to encompass more countries in the coming years: several non-signatory countries are said to be considering joining, including South Korea, Indonesia, Taiwan, the Philippines and Colombia.
- Even within the context of the TPP, non-tariff barriers may persist that could disadvantage BC, such as foot-dragging on access to government procurement, technical barriers, and differing methods of resolving investor-state disputes.

The October 5, 2015 announcement that 12 Pacific Rim countries, including Canada, have signed the Trans-Pacific Partnership Agreement (TPP) is good news for British Columbia. Once/if ratified by all of the signatory countries, it will take time for BC businesses to feel the full effects of the deal: elimination of some tariffs will take 10 years or more. Eventually, the global economic potential of the “TPP region” and the new areas covered by the agreement, particularly services and investor and intellectual property protections, could reshape trade flows and boost economic development in what is already the most dynamic region in the world.

A BC Perspective on the Agreement

The general information available on the agreement to date suggests there will be long-term commercial benefits and few drawbacks for BC. The overriding imperative for Canada was to have a seat at the negotiating table to influence the rules at the outset – including the rules touching on the high-profile auto and supply-managed sectors (neither of which have a substantial economic presence in BC). Put simply, Canada and BC “can’t not be there”. If TPP is ratified, Canada will be a participant in three multilateral trade agreements covering a wide swath of the globe, which will give

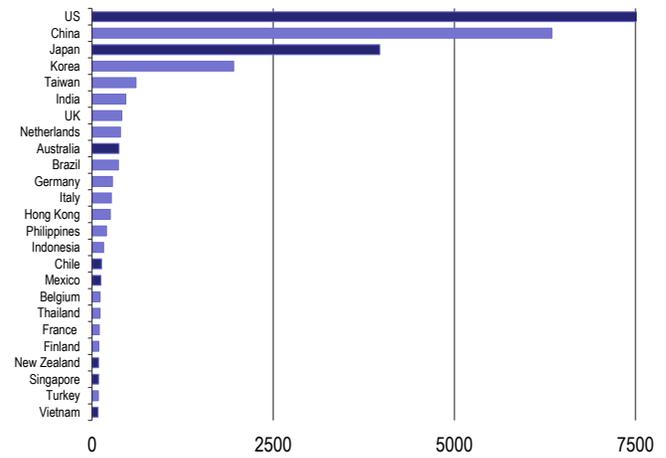
Canadian businesses better access to Europe (~500 million people) under the Comprehensive Economic and Trade Agreement (CETA), North America (almost 500 million) under the North American Free Trade Agreement (NAFTA), and the TPP region (700 million).

Preferential access is the key principle underpinning the agreement. The TPP will allow Canadian and BC businesses to gain better access for goods, services and investment across the TPP member countries than would be available under the “baseline” World Trade Organization (WTO) rules of non-discrimination. Canada is already a party to NAFTA, which grants preferential access to US and Mexican markets, but if we were not a signatory to TPP, BC business would neither be entitled to preferential access to other TPP members nor receive the additional benefits that those countries will gain in relation to the large US market. In many sectors that are important to BC’s economy – including engineering, construction, information technology and some government procurement – access to the US market under the TPP will be more advantageous than NAFTA-level access.

From this perspective, Canada and BC cannot afford to be on the outside looking in. As trade flows shift over time in response to newly opened markets and shifting patterns of demographic and economic growth across countries, existing customers for BC goods and services – particularly in the US – could be at risk of turning to new, lower cost suppliers able to tap the \$18 trillion

¹ BC Stats, Annual BC Origin Exports, released August 5, 2015. Accessible via:

Figure 1
BC’s Top 20 Merchandise Export Markets
millions \$



Source: Industry Canada, Online Trade Database.

Note: dark bars are TPP countries

American market under TPP’s lower tariffs and other rules – compared to those in place under NAFTA. Being part of the TPP removes this risk for businesses in BC and Canada as a whole.

As it is, BC has the most diversified export base of all provinces (Figure 1), relying on its principal market, the United States, for approximately 50% (by value) of merchandise exports. The US is followed by China (18%) and Japan (10%) as the top export markets for BC goods. Even without the TPP, trade flows have changed over the past decade: BC’s export share to the US fell from 64% in 2005 to 50% in 2014, and to Japan from 12% in 2005 to 10% in 2014. Meanwhile, BC-origin exports to China have risen from 4% of the total in 2005 to 18% in 2014.¹ Canada and BC do considerably less trade with other TPP countries today (Figure 2), but many of these (and prospective TPP entrants such as Indonesia and perhaps

<http://www.bcstats.gov.bc.ca/StatisticsBySubject/ExportsImports/Data.aspx>

eventually even China) are emerging markets with significant growth potential. As many commentators have noted, the TPP region represents nearly 40% of global GDP and one third of all international trade. The broader scope of the TPP helps position BC and Canada to benefit from liberalized tariff structures as well as an enhanced capacity to export services and gain from common rules and standards relating to intellectual property, foreign investment, country-of-origin determination, anti-corruption measures, and labour and environmental standards.

dividends with the ramp-up of trans-Pacific trade. Indeed, the main risk to BC's capacity to handle increased trade over the next decade is that our ports (Port Metro Vancouver and Port of Prince Rupert) will encounter land and resource constraints before the new trading relationships fully mature.

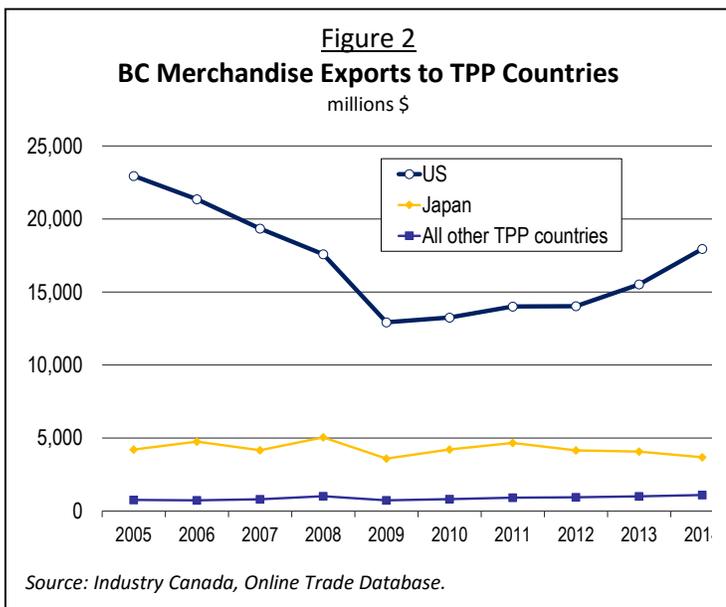
What's In the Agreement?

The full text of the agreement has just been released, and will take some time to pore over and digest. However, the general outlines are reasonably well-known, and a [Technical Summary](#) released by the federal government allows for a reasonable assessment of the TPP's probable impacts on and implications for British Columbia.

Several key goods-producing sectors in the province's economy will have new or improved preferential access to the markets of TPP countries. Among these are many of BC's leading merchandise exports, including: wood and other forest products; aluminum, iron and steel products; seafood; agricultural products; and chemicals and plastics. In addition, the TPP will improve access for BC suppliers of exportable services, such as engineering, research and development, environmental services, and professional and management consulting services. The agreement also promises to commit member countries to take steps to improve the rules governing the entry of highly skilled professionals to other TPP markets.

Trade in goods

In terms of goods movement, four of the top ten countries that shipped goods or commodities through Port Metro Vancouver in 2014 are TPP members, two of which are



BC is well positioned to take advantage of the TPP, given its geographic proximity to Asia (shortest shipping time from western North America), strengthening business linkages with Asian nations across multiple sectors, and cultural ties with many TPP member countries. The Asia Pacific Gateway investments made by the federal and BC governments and the private sector over the past decade in the port, airport, roads and rail infrastructure will pay increased

Canada's NAFTA partners (Table 1). Subject to factors such as swings in the prices of commodity exports or major geopolitical events, over the long term Canada's trade with the various TPP member countries should expand at a healthy rate.

Table 1
Top Ten Trading Economies – All Cargo
(metric tonnes)²

Country	2014 Total	2014 Outbound	2014 Inbound
China	31,610,911	24,149,633	7,461,278
Japan	16,474,875	15,795,649	679,226
South Korea	13,912,368	12,382,309	1,530,060
United States	6,957,598	4,852,856	2,104,743
India	5,218,559	4,981,500	237,060
Brazil	3,630,472	3,600,859	N/A
Chile	2,887,935	2,656,862	N/A
Indonesia	2,504,788	2,405,304	N/A
Mexico	1,794,343	N/A	596,663

Trade in Services

While reliable, detailed data remains elusive for the export of services, Statistics Canada estimates that Canada exports \$95 billion in services annually. Importantly for BC, which has a diverse and well-established base of tradable service exports, TPP covers not just goods but also most non-public services through a "negative list" approach. Under this model, all services are deemed to be covered by the agreement, with the exception of a few sectors that are listed by particular TPP countries. The negative list approach ensures that as services come to represent a larger fraction of overall world

commerce, they will be automatically covered by the agreement within the TPP trading bloc.

The TPP is Also Part Geopolitical Strategy

There is no question that geopolitical considerations have underpinned the American impetus to conclude the TPP. Viewed through a geopolitical lens, the TPP can be seen as part of a US-driven architecture to direct and manage Asia Pacific economic and trade relations over the coming decades, as a counterweight to China, the rising power in Asia (which is not necessarily precluded from future TPP participation). The office of the US Trade Representative states that "The rules of the road are up for grabs in Asia", and characterizes the TPP as a chance for the US to write them.³ Other intra-regional political and security tensions (e.g. over the Senkaku/Diaoyu Islands, and myriad conflicting interests in the South China Sea) remain important considerations: a binding multilateral trade and investment agreement among several of these countries could elevate economic benefits and help to preserve stability in the region.

From Canada's perspective, the relevant geopolitical considerations with respect to the TPP mainly concern the politics of trade: the outgoing federal government recognised the importance of being a founding TPP party, as it keeps Canada inside the tent of the most dynamic trading region in the world. The new Canadian government too

² Port Metro Vancouver, "2014 Statistics Overview: Principal Trading Economies – All Cargo" p. 13. Accessible via: <http://www.portmetrovancouver.com/wp->

<content/uploads/2015/03/2014-statistics-overview.pdf>

³ Office of the US Trade Representative, "Strategic Importance of TPP". Accessible via: <https://ustr.gov/tpp/#strategic-importance>

can play an important role: not only by ratifying the agreement, but by using diplomacy to encourage ratification by all member countries, and then vigorously championing the consistent, transparent implementation of the agreement. The geopolitics of energy play into the equation as well, and TPP market access for energy products will be a critical piece in claiming Canada's strategic advantage.

TPP may well expand to encompass more countries in the coming years: several non-signatory countries are said to be considering joining, including South Korea, Indonesia, Taiwan, the Philippines and Colombia. China and India remain on the outside for now. The OECD estimates that by 2030, the Chinese and Indian economies together will represent almost two-fifths of global GDP.⁴ As new signatories join, the balance of interests and market power will shift, and Canada/BC will need to reposition accordingly. Ironically, the single largest threat to the launch of the TPP is its largest champion – the new trading bloc will likely fail if the US Congress fails to ratify the agreement in the coming months.

How Significant is it for BC?

The agreement will have a significant effect over time, as BC's exports still face sizable tariffs in some TPP markets, ranging from 5% to as much as 40% in a few countries. Japan, BC's third largest export market, levies tariffs of 6% on some lumber products, 5% on many seafood items and 15% on icewine. Malaysia has tariffs of 40% on some plywood and panel products. Vietnam also has many

punitive tariffs in place. A breakdown of goods exports through Port Metro Vancouver, cross-referenced against the tariff reductions published in the Technical Summary, suggests that a number of our key commodity export sectors will continue to benefit from liberalized access to BC's biggest foreign customers as the TPP is implemented.

A substantial opportunity will arise for BC businesses from the liberalization of government procurement, not only in Asian countries (some of which have historically been difficult to sell to), but also in the United States for sub-federal authorities such as the Bonneville Power Administration, which operates the federal hydroelectric power system in the US Columbia River Basin.

Potential Prize Market: Japan (plus Australia and New Zealand)

Japan represents a notable export market opportunity for BC and western Canada-origin goods and services, particularly in agriculture and agri-foods, wood and wood products, and some services. Canada does not presently have free trade agreements with Japan, Australia or New Zealand; additional benefits should flow as tariffs are reduced and other aspects of trade are liberalized with these jurisdictions under the TPP. Particularly in the case of Japan, the scale of additional benefits for BC depends in part on how Japan evaluates its options with Canada compared to the much larger US west coast markets as the business playing field is leveled due to tariff reductions. The

⁴ Cited in Asia Pacific Foundation of Canada, "10 Things Every Canadian Should Know about the TPP", October 8, 2015. Accessible via:

<https://www.asiapacific.ca/blog/10-things-every-canadian-should-know-about-tpp>

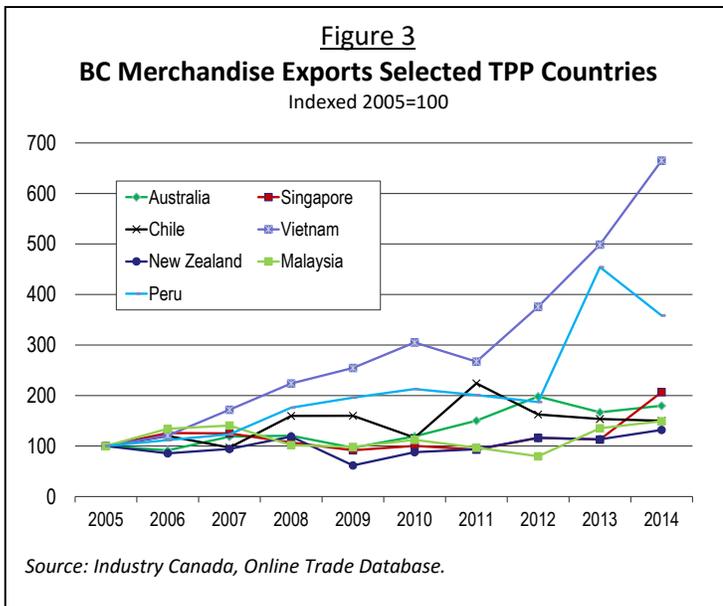
principal Canadian commodities exported to Japan through Vancouver in 2014 included metallurgical and thermal coal, wheat, canola and lumber.⁵ There is every reason to believe that agriculture, wood products, and possibly LNG will underpin future BC export growth with Japan.

Considering Some Risks

Even within the context of TPP, non-tariff barriers may persist that could disadvantage BC, such as foot-dragging on access to government procurement, technical barriers, widely divergent labour and environmental standards, and differing methods of resolving investor-state disputes.

Highlighting a potential risk in the environmental realm, while the Technical Summary states that the TPP “[p]rovides ambitious environmental obligations, including commitments to pursue high levels of environmental protection, effectively enforce environmental laws, and not waive or derogate from these laws in order to promote trade or attract investment...”, it does not address situations where higher/stronger environmental standards are used as tariff or non-tariff barriers to trade. For example, what happens to Japan’s border carbon tax on imported fossil fuels once the TPP is in place? It is not clear that this forms part of Japan’s commitment to eliminate tariffs on petroleum products within the next decade.

An area where TPP appears to be silent is Free Trade Zones (FTZ) – designated areas of deferral or elimination of duties on inbound goods. Legal observers have pointed out that it is unlikely that FTZs would fall afoul of TPP or WTO rules, and the TPP could actually encourage additional inbound trade to BC, including intermediate goods that are re-exported. As part of the public policy debate around ratifying the TPP, the BC and



While our trade today with Australia and New Zealand is markedly smaller than with Japan, the Technical Summary released by the federal government suggests that tariff reductions/eliminations by Australia and New Zealand could boost exports in BC’s wood and paper products and iron and steel products sectors. It is likely that mining equipment and some engineering service exports will also increase under TPP. On the inbound side, BC consumers could also see more, and less costly, agriculture and agri-food imports from Australia and New Zealand as the TPP comes into effect.

⁵ Port Metro Vancouver, “2014 Statistics Overview: Top 5 Trading Economies by Principal Commodities – Outbound Cargo” p. 19. Accessible via:

<http://www.portmetrovancover.com/wp-content/uploads/2015/03/2014-statistics-overview.pdf>

Canadian governments could consider the benefits of establishing an FTZ for Vancouver and/or Prince Rupert.

Some commentary so far points to the TPP having a more robust governance structure than NAFTA. While this remains to be seen from detailed legal analysis of the full text and based on how the rules are tested in practice, the ultimate success of the TPP will rest, in part, on the compliance and enforcement mechanisms developed for each area of trade – particularly new elements such as e-commerce and telecommunications – that are being dealt with for the first time in a complex multilateral trade agreement. Further, the widely varying levels of economic development among the TPP signatory countries mean that it will take time for some signatories to update, for example, labour codes, the role of state-owned enterprises, or environmental practices to meet the TPP's standards.

Lastly, there is general agreement that consumers in the TPP countries, including Canada, will be “winners” from the agreement, benefitting from lower input costs and duties on consumer goods, and possibly services. Liberalized trade under the TPP is a multi-street intersection: while BC and Canadian businesses should gain from improved access to the markets of 11 other countries, they also face new entrants across a range of sectors here at home. Canadian firms will need to position themselves to compete and thrive in a C\$28 trillion regional market comprised of 700 million people.

This edition of
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was guest authored by

Karen Graham
Consultant to the Business Council
on Public Policy and Research