CFEE INSIGHTS

Highlights of Things to Know About the TPP

- TPP stands for the Trans-Pacific Partnership since it involves countries from all across the Pacific region.

- This is not a free trade agreement since some tariffs and protections remain, although they will be gradually reduced. That is why it is a partnership and not a free trade agreement. It will certainly affect trade and the flow of goods and services – but it does not create a free trade zone like the European Union. In the case of the EU, goods, services and labour can flow freely among countries without tariffs and barriers. That is not the case for this agreement.

- The TPP will affect the level of tariffs on goods traded among the participating countries and, in some cases, eliminate them. Tariffs are like a tax on an import coming into a country to force up its price and make it less competitive with the goods produced domestically.

- There are 12 countries that are part of the agreement:

- Canada	- United States	- Mexico
- Japan	- Australia	- New Zealand
- Malaysia	- Brunei	- Chile
- Vietnam	- Singapore	- Peru

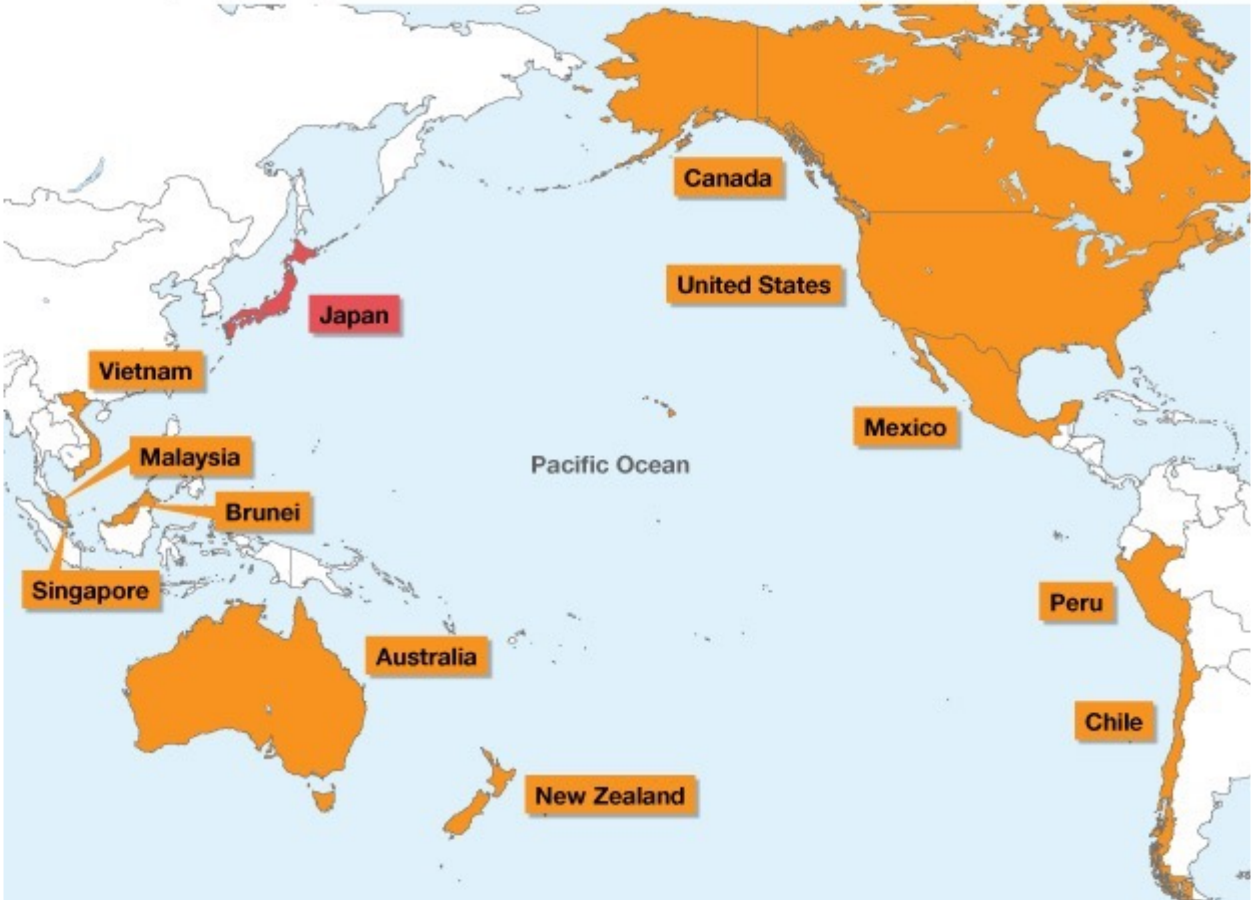
- Some other countries are potentially interested in being part of the agreement and may sign on over time.

- China is not one of the partners and one of the reasons for the agreement is to try to counter the growing strength, impact, and position of the Chinese economy.

- The agreement involves countries which, together, make up about 40% of the global GDP – that is, 40% of the value of goods and services produced in the world.

- Canada did not have much choice but to join in since it would have been difficult for Canada's NAFTA partners – the U.S. and Mexico – to be part of the agreement and not Canada.

Figure 1 Countries Participating in the TPP Negotiations



- The TPP does not replace NAFTA – the North American Free Trade Agreement – which stays in place and impacts the trade among Canada, the U.S. and Mexico.

- The details of the agreement have still not been released as they being reviewed by legal teams.

- The TPP is signed by the countries but it does not come into effect until each country has agreed to it through ratification by its government. In Canada, this will have to wait until after the election and, if a new government is elected, it may be impacted by how that new government regards the agreement. The NDP have indicated that they are not in favour of such an agreement. The Liberals have indicated that they would want to see the details but that they are totally in favour of encouraging and facilitating trade.
- The TPP would also need to be approved by the U.S. Congress and Senate and this may prove to be difficult.

- It may take up to two years for the agreement to come into effect once, and if, all participating countries have received approval.

- Likely the most unhappy with the agreement are the dairy farmers, the automakers and some auto parts suppliers. Canada has a Supply Management System in place that overseas production and prices for things such as milk and cheese. The production is controlled to ensure relatively stable prices for the farmers to protect their livelihoods. The agreement allows some added competition from foreign producers – but not as much as had been feared by the Canadian dairy farmers – and the government is proposing to provide some compensation to the farmers if they incur losses because of the agreement. There will also be lower tariffs on auto parts and the percentage of a car that must be built with domestic parts will fall from 62.5% to 45%. There should, as a result of the agreement, be more foreign competition for these industries. Some major auto parts companies, however, will likely benefit from greater access to foreign markets that will come as part of the agreement.

- Many Canadian export producers are happy because of the potentially greater access to foreign markets – especially Japan, Australia, and New Zealand. Many in the west will be particularly happy because many goods from the west are exported to Asian markets. Those in the lumber and beef industries, for example, will be happy with greater access markets like Japan, Australia, and New Zealand. Greater access comes from reduced or eliminated tariffs that had forced up the price of the goods they were selling. As their exports fall in price in those markets because of the lower tariffs, they become more competitive and they should be able to sell more. Some in the beef industry say they think they should be able to triple sales over time.

- When and if concluded, many aspects of the agreement will be phased in over time to enable industries and producers to adjust to the changes. Therefore, consumers are unlikely to notice any real changes, as a result of this agreement, for some time.

- The extent to which consumers will benefit will also depend on the extent to which producers pass on the opportunity for lower prices to the consumers.

- In summary, as a trading nation – which Canada is since a very significant component of our production of goods and services and jobs depend on trade – Canada overall will generally benefit from more opportunity to achieve export success in foreign markets. At the same time, such agreements usually result in some degree of adjustment and pain at home as a result of more competition from imports. And, while some industries, companies and workers benefit, others can be hurt. In the end, it will come down to how capable, productive, efficient and effective Canadian companies are in taking advantage of new foreign export opportunities and, at the same time, contending with the challenges from foreign producers' imports competing with our producers here at home.

- As always, the net benefit or loss will be determined over time and will be assessed by people in years to come as they reflect back over results and impact. And, even then, people will likely differ in their assessments since those who do better will likely always see the benefits and those who are hurt will always focus on the costs. There will be both. As a country, if the agreement is eventually agreed to by all, we will have to collectively determine if, when all is said and done, it was good for our overall economy and whether we are better off or not, because of such an agreement.