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At a Glance

The Trans-Pacific Partnership:
What Canadian Business Needs to Know

After more than five years of hard work, the Trans-Pacific Partnership (TPP) negotiations have come to a successful end. Landing in the midst of a federal election campaign, there are a lot of questions and debate about what this historic deal means for Canadian businesses, jobs and the economy. Business has heard the talking points from all sides, but the reality is always more nuanced. Here's what we know so far.

How does business benefit from trade agreements?

The main objective of trade agreements is to make it cheaper and easier for Canadian companies to do business across borders. Most countries levy tariffs or import duties on foreign products that are bought or sold in their market. They may also limit the sectors where foreign companies can invest, or how much of an operation they can own. It might be hard for companies to get the visas or permits they need to move people and data in and out of markets. Customs procedures can be cumbersome or unpredictable. By signing an agreement, both Canada and our trading partners commit to reduce these types of barriers.

But agreements are also about creating a level playing field on which Canadian companies can compete. They commit governments to regulate and tax Canadian companies and products in the same way they do their own, and to do so transparently. They promise to protect Canadian investments and intellectual property from expropriation and theft. Agreements also provide mechanisms for Canadian companies to seek relief from unfairly subsidized or artificially cheap imports.

What is the TPP and why is it so special?

The TPP is a trade agreement between 12 countries that sit along the Pacific Rim: Canada, the United States, Japan, Mexico, Vietnam, Malaysia, Australia, Chile, Peru, New Zealand, Singapore and Brunei. It will create an integrated market covering nearly 800 million consumers and 40% of the global economy.

Canada already has access to several of these countries, including through the North American Free Trade Agreement (NAFTA). But Asia is quickly becoming the centre of the global economy and the only agreement we have there today is with South Korea. In one step, the TPP will give Canadian companies new access to Japan—the world's third largest economy—as well as to over 120 million consumers in Vietnam and Malaysia. Eventually, the TPP could include Taiwan, Indonesia and the Philippines, or even China and India—basically anyone willing to sign up to the TPP's conditions.

And the TPP isn't any old trade agreement. It's a template that reflects lessons from the past and the challenges facing international business today. There are new rules around e-commerce, trade in services, innovative medicines and state-owned enterprises. It is the first agreement to take into account the needs of small- and medium-sized businesses, and the first with fully-enforceable labour standards and environmental protections.

"The Asia Pacific region is increasingly a key market for Canadian companies. To be successful in this market, Canadian companies require a level playing field and a consistent set of rules governing trade." – John Chen, Executive Chairman and Chief Executive Officer, Blackberry

By modernizing trade rules across major economies, the TPP has accomplished something the World Trade Organization has failed to do since it was founded in 1994. It will be a 'living agreement,' supported by intergovernmental committees and a central Commission, positioning the trade bloc to play a leading role in the future of the multilateral trading system.

Which industries have the most to gain?

On paper, Canadian companies selling to Japan, Vietnam and Malaysia are the big winners. They will save hundreds of millions of dollars as import tariffs fall on a wide range of Canadian products: from agri-food, seafood and wood to chemicals, aerospace and industrial equipment. The TPP will also help companies in these markets manage regulatory challenges related to food safety, building codes, pest management and conformity with technical standards. For some, the TPP could transform their industry. Beef producers and processors, for instance, expect to double or triple their exports to Japan alone.

There will be some new access to the American market. Canada pushed hard in the negotiations to end 'Buy American' policies that exclude Canadian suppliers from major infrastructure projects. The TPP won't change those, but it will open up procurement opportunities with six major regional power authorities, which together spend around $4 billion on construction every year. Many Canadian companies have experience supplying these types of projects

Canadian importers will benefit too. Every year, retailers pay duties on over $10 billion in consumer goods from TPP markets where Canada doesn't have trade agreements. Nearly all these duties will be eliminated, lowering costs and giving companies more flexible sourcing options. Similarly, Canadian extractives companies that operate in the region will save money when they import equipment and other materials from Canada and other TPP markets.

Companies in the services sector—banking, insurance, IT, managing consulting, architecture and engineering—also see big potential in the TPP. These firms account for a rapidly growing share of Canada's trade with Asia, and many have set up extensive local operations there. The TPP will protect their investments, ensure more even-handed regulation, and make it easier to bring in the technicians and managers they need to run their business.

Should we be worried about Canadian manufacturing?

Though many manufacturers will benefit from new market access, some worry these gains will be offset by losses in other places. But such an outcome is far from inevitable, especially if those affected have enough time and support to adapt and take advantage of the TPP's upside potential.

> *"We had no choice but to be at the negotiating table with the big players. When you decide to join the major leagues and decide the rules of the game, the next step is to understand what you need to do to compete. – Ray Tanguay, Automotive Advisor to Ontario and Canada, Former Chairman of Toyota Canada*

The main concern is the automotive industry, now that Canada will remove a long-standing 6.1% import tariff on passenger vehicles from Japan, and allow more foreign content in parts and vehicles. The fear is that more competition will hurt the business case for locating in Canada at a time when we're already losing production to Mexico and the southern United States.

But the TPP also presents an opportunity for the industry to broaden its horizons. Canada's advantages in research and design could be combined with competitively priced inputs from around the world and access to customers across the Pacific and Atlantic. Some local carmakers already have plans to use Canada's upcoming trade agreement with the European Union to produce for that market, while others are investing locally in new technologies for self-driving or 'connected' cars. In any case, the TPP is a wake-up call for the sector. Industry and governments at all levels will need to use the agreement's transition period to take stock of the situation and come up with a long-term plan.

Though many companies will face new challenges, the TPP has safeguards to make sure the game isn't rigged against them. Canada negotiated the right to raise tariffs on Japanese vehicles if there's a surge in imports. And TPP members are discussing a mechanism to monitor and prevent countries from devaluing their currency to give their exporters an edge.

The TPP will also prevent state-owned enterprises from undercutting Canadian companies. Canada's steel industry, for example, has been struggling in recent years under a barrage of low-priced imports from countries like China and Vietnam. Government-backed steelmakers there have used subsidized loans to expand their production capacity, despite a slowdown in market demand. The TPP will require them to compete on a commercial basis and without special financial or regulatory advantages.

What does it mean for technology and innovation?

For decades, trade agreements have failed to keep pace with advances in technology that have changed the way international business is done. The TPP provides several much-needed updates.

It creates a new framework to promote e-commerce and the digital economy. Governments will no longer be able to arbitrarily restrict the free flow of information across borders, or require that businesses store their data on local servers. It will also prevent them from demanding access to a company's software source code. The use of such measures by a growing number of jurisdictions around the world is a real threat to thousands of Canadian companies that depend on crossborder data flows to sell their products online, manage customer relationships or take advantage of the low-cost storage and processing power offered by cloud computing.

> *"The TPP trade agreement will help Canadian companies, including those who are world leaders in the services sector, have greater access to the growing pacific market while ensuring appropriate safeguards are in place in the areas of digital commerce and privacy protection." – Rupert Duchesne, Group Chief Executive, Aimia*

Although recent reforms have brought Canada's intellectual property laws in line with most of agreement's requirements, Canadian trademarks, copyright and patent protections stand to receive improved protection in other TPP markets. Some countries, for instance, don't offer adequate remedies to combat trade in counterfeit and pirated goods. Others will need to lengthen the period of time that companies have to recoup investments in new medicines.

There are concerns, however, that the TPP has fallen short in this area, especially when it comes to biologics—an innovative type of drug that is hard to protect under traditional pharmaceutical patents. Nonetheless, the TPP should make Canadian companies more confident to develop and license their intellectual property in the Pacific region.

What stays the same?

The TPP may be one of biggest trade agreements in history, but it's important to remember that Canada's unique economic and social model will remain intact.

As in past agreements, Canada has carved out a number of areas from the TPP's scope. Our foreign investment rules in telecommunications and cultural industries will be preserved. Nothing in the agreement will prevent the federal or provincial governments from building public infrastructure, funding research and development or continuing to provide health care, education and other social services to Canadians. Neither will the TPP affect crown corporations such as the Canadian Broadcasting Corporation, Canada Post, Export Development Canada and port authorities.

Canada's dairy, poultry and egg industries will continue to operate under a system of supply management, though there will be a small increase in imports from TPP countries. The new dairy import quota will be equal to 3.25% of the national market, most of which is expected to be filled by American producers. Canada's Trade Minister has proposed a $4.3 billion package to compensate farmers and help them adjust to new circumstances.

How will companies use the TPP?

All Canadian companies doing business with TPP markets are covered by the agreement, though they may have to take steps to qualify for the benefits. To pay lower import duties, for instance, companies will have to certify that their goods contain a minimum level of value-added from the TPP region.

If a foreign government fails to honour its commitments under the agreement, affected companies can petition the Canadian government to file a formal dispute. If the matter involves an investment or intellectual property issue, the company may be able to bring a direct case against the foreign government in a process called investor-state dispute settlement, which could result in financial compensation for damages.

What happens if Canada doesn't join?

> *"Canadian participation in international agreements such as the Trans-Pacific Partnership is absolutely vital to the sustainability of the livestock and meat sector. They create an environment that allows farmers and processors to remain competitive in both the domestic and foreign markets."*
> *– Hendry Mizrahi, President, Lester Foods Limited*

Not only will we miss out on new business opportunities, many companies will find themselves worse off than under the status quo. They will lose key export markets to firms from TPP countries that will no longer be subject to the same import duties or other trade barriers. Canada's canola industry, for instance, estimates they will lose $14 billion over 10 years if the TPP goes ahead without us.

Canadian companies may get pushed out of their traditional North American supply chains. Even though NAFTA will remain in force alongside the TPP, global firms will become more reluctant to invest here or source Canadian products if the content won't qualify for access to the broader Pacific region.

Perhaps most importantly, we will lose our influence over global trade rules. As a mid-sized economy, Canada is always better served through regional and multilateral institutions, where we can work with others to set the terms of our trade and investment relationships with established and emerging trade powers.

When will the TPP come into effect?

There are a number of steps that need to be taken before the TPP will enter into force. Countries reached an agreement-in-principle on October 5, marking the end of formal negotiations. They are preparing the final text for public release and signing. It must then be ratified. In most of the countries, this means getting national parliaments to approve the deal and make any necessary changes to local laws.

If all parties ratify the agreement within two years of signing, it will take effect 60 days after the final notification. If not all countries ratify within this time period, the agreement can still go forward using a different formula.

The TPP may face some political hurdles. Canada's opposition parties say they will have to review the text before they can support it. The United States, Japan and Australia will also have elections next year and some of their leaders have already spoken out against the deal.

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