The Trans-Pacific Partnership (TPP): Impact on Supply Chains

Supply chain and logistics operators should start planning now for the implementation of the Trans-Pacific Partnership (TPP) trade agreement that was signed in February 2016.

**SCOPE**

The TPP covers 40% of global trade and brings together 12 countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam. The agreement is complex and broad with 30 chapters.

Under the TPP, companies can gain substantial benefits from being located in TPP member countries and selling goods and services into other TPP member markets.

**TARIFF CUTS**

For many supply chain and logistics companies, the most obvious change in a post-TPP world will be the reduction of tariffs. On the date of entry into force of the agreement, 90% of all goods tariffs in all 12 members will drop overnight to zero. The remaining tariffs will also drop, over time, with many eventually becoming duty free.

The tariff reductions mean that firms will no longer have to contend with tariff peaks—specific items or sectors where tariffs can easily reach 30, 50, or 150%. When tariffs fall, companies can be competitive in places where they were formerly not.

Dropping duties to zero also improves the prospects for firms to add value to products at home. In the past, tariff escalation meant that low tariffs might apply to raw and unprocessed materials like raw coffee beans. Roasted coffee beans might face higher tariffs. Ground coffee might draw higher tariffs and a bottled coffee drink could have had tariff rates so high as to be completely impossible for firms to compete with locally produced bottled beverages.

After the TPP is implemented, however, all tariffs drop to zero, including reductions in processed goods. This is especially critical for food manufacturers who can take advantage of duty free access for raw, roasted, and ground beans as well as bottled coffee. Firms can shift into higher-value sectors now and are not limited to exporting only unprocessed goods and raw materials to remain competitive.

**RULES OF ORIGIN**

The rules of origin (ROOs) in the TPP are the same for all products across all 12 member countries. This means that once a product qualifies for preferences in one country, it automatically is eligible for preferences such as reduced or zero duties in all members.

The TPP also allows cumulation across TPP member markets. This lets firms add up (or cumulate) the materials and inputs for any given good from across all 12 TPP markets. For example, a firm that produces packaged soups can add up vegetables, broth and noodles added from TPP markets like Australia or Malaysia to “count” towards meeting the overall rule of origin for soup exported to Canada, Japan or the United States.

Cumulation across a dozen participants means that the TPP is likely to be more helpful for companies than bilateral free trade agreements agreements where firms can only include the contents sourced from the two partners. Bilateral deals also only work for selling the finished goods back to the partner.
Each product or tariff line has a specific rule of origin attached. Firms will need to research their product categories to determine how best to meet TPP origin criteria.

CUSTOMS AND TRADE FACILITATION

The changes in tariffs are to be accompanied with changes in customs. For instance, TPP members are going to make a host of changes designed to speed up and reduce costs at the borders.

Many firms will be eligible for self-certification of origin, eliminating the need for time-consuming trips to chambers of commerce or other bodies to obtain a certificate of origin (CO). Custom officers will grant firms advance rulings that will clarify the specific rules of origin to be applied to particular products and ensure that these classifications will not shift for a year. As noted earlier, once a product qualifies for benefits, it qualifies under the origin criteria for all 12 member markets.

The agreement also includes specific rules for express shipments and other expedited delivery processes. Customs officials are to allow pre-arrival processing and guaranteed release within specific time periods.

SERVICES AND INVESTMENT CHANGES

Supply chain and logistics companies themselves may also benefit directly from TPP changes. This is because the agreement also opens up services sectors for easier access to TPP firms.

Other key services may include back office processing of all types, legal services, HR, accounting, transportation, warehousing, or construction. The method of opening service sectors is also important, as member governments promised to allow TPP member participation in services sectors automatically, unless an individual government has specifically exempted a service from market opening.

TPP firms also have significantly improved investment opportunities in member countries, including market opening and better protection of investments.

PLANNING AHEAD

TPP negotiations are complete, but domestic procedures must be completed before the deal will be implemented. Because each of the 12 member countries has different processes, it is not entirely clear when the TPP will enter into force. The fastest possible timelines would be mid-2016, however, such a timeline would be exceptionally quick. Instead, the agreement will more likely take effect in 2017.

The agreement provides potentially significant benefits for qualifying firms and products. Companies may find that existing supply chains should be altered or adjusted to allow specific products to qualify for TPP benefits into TPP member markets. Some changes in sourcing of inputs and raw materials may be necessary to reach the necessary level of content for the agreement to be applicable.

This complex trade deal, however, will also require an investment by companies that intend to use the agreement into understanding specific provisions. Firms must determine which benefits may or may not apply. But the payoff from successful use of the TPP could be substantial.

TIMELINES

TPP member countries are currently completing their domestic procedures to bring the agreement into force. The exact timelines are not known, but the agreement could begin as early as 2017 or spring 2018.

FOR FURTHER READING

For information on how the Asian Trade Centre can work with your company to harness the potential benefits of the TPP and avoid surprises, please contact us at info@asiantradecentre.org.

Your TPP end-to-end supply chain and logistics solutions provider is TOLL. Find out more at: