ASIAN TRADE CENTRE

Understanding the TPP11: Market Access for Goods

Working Paper

January 23, 2017

Who's in the Trans-Pacific Partnership (TPP)?

The TPP was originally negotiated and signed with 12 parties spanning both sides of the Pacific: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam.

Now, as the deal moves toward implementation, not all the original members will remain involved. President Donald Trump will not proceed with domestic level ratification of the TPP. Others may follow suit.

However, the agreement can still come into force with a modest adjustment, especially to one clause (Article 30.5).[1] The rest of the agreement is likely to stand. Officials had always included an option to trigger the agreement with as few as six members.

But What Is Lost Without the Americans?

Many people have assumed that without the Americans, the TPP is no longer worth pursuing. From the perspective of the remaining parties in the agreement, this is a flawed assessment. A careful review of the TPP—shown below in this booklet—shows that the benefits of the TPP remain whether or not the United States ever rejoins the deal.

Why? Because the United States has been a relatively open market, most of the other 11 TPP parties already have access to the American market—whether or not the TPP includes the United States.[2] There is not a great deal of need for new preferential access to the US market, outside of a few sectors (like textiles, footwear and some agricultural products).

Second, other than some market access issues where the United States continues to apply tariffs at relatively high levels or maintains complicated

[1] An adjustment is needed absent the Americans because the TPP as originally written requires participation from at least six countries representing 85% of the GDP of the signatories from 2013. While the TPP Article 30.5 does not explicitly name any country, the size of the US economy relative to the rest means the Americans need to be among the six unless the clause is modified.

[2] Many TPP parties also have existing trade agreements with the Americans, including Australia, Canada, Chile, Mexico, Peru and Singapore. Note, however, that President Trump has also said he will renegotiate NAFTA with Canada and Mexico, perhaps leading to fewer benefits in the future.

market restrictions like tariff rate quotas, the American market is even more open to all—especially in areas like services and investment. The United States already protects intellectual property rights and facilitates trade at customs.

Third, because the United States wanted to limit domestic changes in Congress, the extent of American modifications that would have been required by TPP implementation were quite modest. The US is therefore already in alignment with most of the TPP rules—whether or not it proceeds with the agreement—in areas like standards or e-commerce.

As a result, for most firms trying to access American markets from TPP member countries, whether the United States is explicitly included or not in the deal is not especially critical. TPP firms already have access to the United States and this should remain.

Of course, in a world of complex supply chains, more participants following one agreement is better. It is easier for big and small companies to use one agreement than an assortment of overlapping deals. It would have been preferable to have the Americans in the TPP, but their government has opted to withdraw at this time.

So Why Do We Need the TPP At All?

While the TPP didn't require many changes from the United States, which is already relatively open, and then structured the overall agreement largely to match its own domestic procedures, the same cannot be said for the remaining TPP members.

For the other 11 participants, the TPP *does* lower barriers between members and requires transformation in procedures. In some countries, the changes are modest and in others, the changes are more substantial.

But in all—the final result will be a much more dynamic, integrated and competitive region with benefits that are limited to TPP member firms. Non-TPP member firms (including, now, American companies)[3] will not have access to these preferential benefits.

The TPP has always been touted as a "21st century, gold standard" agreement. This assessment may have been overblown, but compared to other trade agreements, it certainly offers better, deeper and broader commitments. The high quality nature of the TPP remains, even if not all 12 original parties are included on the very first day of the deal.

Many of the specific provisions of the TPP are likely to set the benchmarks for future trade agreements.

[3] With some caveats—some provisions will "spill over" to non-members. For example, better protections for intellectual property are likely to benefit all firms and not just TPP firms. Non-member firms may be able to take advantage of some provisions, if they are clever, careful and have good specialist help.

Viewing the TPP: Market Access for Goods

The fastest way to assess a trade agreement for quality is to look at the extent and depth of tariff cuts. Tariffs act like taxes applied on goods crossing borders. Higher levels of tariffs can limit trade and one key goal of free trade agreements is to cut down tariff levels. Better quality trade agreements have steeper tariff cuts overall in shorter time periods.

The TPP is a truly high quality agreement in this regard, especially compared to most alternatives, as it broadly starts with tariff cuts on 90% of all tariff lines on the very first day of the agreement (entry into force or EIF). Many of the tariffs fall all the way to 0 or become duty free on EIF.

For those tariffs that do not fall to 0 on EIF, the majority of tariffs fall to become duty free in relatively short time periods. Often, this is within 5-7 years and most are gone within 10 years.

Even agricultural products, which are highly sensitive in most countries, are included in the TPP and are not simply "carved out" or ignored. Every single tariff line is included for tariff cuts in the TPP and nearly all become duty free over time.

Using the TPP

The TPP texts are available for download (https://www.tpp.mfat.govt.nz/tpp-text.php) and all TPP member market access schedules (Chapter 2-D Annexes) are also online. Every product can be searched by HS Code (2012HS Codes) to find the matching tariff levels under the TPP schedules for each TPP member.

Many member governments have already included TPP information in their customs tariff finders. Some specialist providers have included TPP tariff details into their automated products.

TPP members that have not yet completed domestic ratification procedures at the time of entry into force will not be able to use the TPP until these are completed. Any information relevant to their country commitments (including the United States) will remain dormant and inactive.

Rules of Origin

Unlike the market access schedules, which are different for each TPP member country, the rules of origin (ROO) commitments are the same for all. There is one ROO schedule (TPP Chapter 3). Every tariff line has a matching ROO in the TPP under product-specific rules of origin (PSRs).

Once a product has met the ROO for the TPP, it can be shipped without change into every other TPP member country. TPP benefits apply only for goods being shipped into TPP countries.

The TPP uses "wholly obtained" and "substantial transformation" as the two principle criteria to determine origin of goods.

The specific ROO (Art. 3.3) for wholly obtained includes the following:

I. a plant or plant good, grown, cultivated, harvested, picked or gathered there [in a TPP country];
II. a live animal born and raised there;
III. a good obtained from a live animal there;
IV. an animal obtained by hunting, trapping, fishing, gathering or capturing there;
V. a good obtained from aquaculture there; …and
VI. fish, shellfish and other marine life taken from the sea, seabed or subsoil…

For substantial transformation, the TPP allows three different calculation methods:

(i) A general Regional Value Content (RVC) Rule, ranging from 30% to 55% content value, depending on the method of calculation (Focused Value Method, Build-Down Method or Build-Up Method);
(ii) Change in Tariff Classification Rule: Requires that for the final good to qualify for preferences, it has to be classified under a different tariff category (usually at 4 or 6 digit level) as compared with the original inputs; or
(iii) Process Rules.[4]

For certain tariff lines, businesses may opt to use either one of the three methods to determine origin. For some other tariff lines, only one option is specifically allowed. The TPP Chapter 3 outlines the specific methods for calculating origin under each method.

Of particular importance to companies, the TPP does allow cumulation across members—this is one of the biggest benefits of using a regional arrangement instead of a bilateral trade deal. Firms can add up or "cumulate" the originating content from a wider set of countries to reach thresholds, particularly for meeting RVC calculations.[5] The TPP also allows firms to include 10 percent of the content of products to originate outside the TPP (a 10% de-minimus threshold) without violating RVC or CTC.[6]

TPP Complications

While most products will move much more freely throughout the TPP once the agreement comes into force and is fully implemented, some items between some members will remain subject to complicated procedures.

[4] The process rules are about where, in geographic space, a product was created and are mostly used for chemical tariff lines. See Margaret Liang, "Rules of Origin in the TPP," AWRN Conference, Hong Hong, May 16, 2016.
[5] Cumulation applies to all products except a very small number of mostly dairy items for some member states where something called a "tariff differential" kicks in.
[6] Although there is also a small set of products (again, mostly dairy) where de-minimus is not allowed.

In particular, agricultural products and processed food manufacturers should pay careful attention to some parts of the TPP agreement. Canada, Japan, Mexico and Vietnam have tariff-rate quota (TRQ) commitments that contain quantitative limits on certain products.[7] There are also some products that may be subject to safeguard limits if quantities surge after the TPP comes into effect.

The TPP also has some complex rules for autos and auto parts.[8] Textiles and footwear producers will receive new market access opportunities—even without the Americans—but the market remains challenging, as many of the TPP11 countries continued to protect some sectors in the near term. The ROO, yarn-forward, for most textile and apparel products is especially complicated.

Customs and Trade Facilitation

For goods companies, however, the rules for tariff reductions and ROOs are not the only things that matter. The processes and procedures for getting goods in and out of TPP member countries are also important. Fortunately, TPP rules for trade facilitation are likely to prove extremely helpful for companies.

The TPP generally promotes efficient and transparent customs procedures. Particularly important provisions include the following:

- Expedited and consistent customs treatment at all domestic entry points, including the use of automated systems
- Self-certification of origin for selected companies
- Advance rulings to allow companies to get a ruling from customs officials about tariff classification and ROO determinations that will remain in effect for a full calendar year
- Specific rules for express shipments and expedited delivery processes to include 6 hour guidelines
- Pre-arrival processing and guaranteed release within specific time periods

Examples: Market Access for Goods

The TPP includes tariff cuts and market access improvements for every product category. While nearly every product will receive duty-free or tariff-free access eventually, not all drop immediately on the first day. For some items, access is phased in over time. In some markets, tariff cuts happen gradually in even installments. In others, tariffs cuts are uneven. Finally, a

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[7] Technically, they have a quantitative limit that qualifies for a lower tariff. Everything imported above this limit is charged a significantly higher tariff.

[8] Trade in autos may also be affected by ongoing negotiations over the North American Free Trade Agreement (NAFTA) and unilateral actions in the United States. Untangling some of the auto commitments in the TPP absent the United States may be slightly more challenging, but many of the auto pledges were placed into later staging categories with the impact due to take effect much later than the EIF date.

limited number of products (mostly agricultural items) never reach duty-free treatment.[9]

To see what the TPP with 11 parties delivers in wide range of products, this booklet highlights seafood, wine, plastics, cosmetics and soap, shampoo, wood, furniture, iron and steel and some footwear and textile categories. The product categories were chosen to illustrate the range of different market access commitments made by TPP11 members.

Fish and seafood (HS code: 03)

The TPP contains extensive tariff reductions for seafood, subject to some product restrictions (particularly into Japan).[10]

All Japanese and Mexican tariffs for seafood will be eliminated within 15 years.[11] For Mexico, most of the tariff elimination will happen on day 1 (Entry into Force or EIF).[12] All Vietnamese, Canadian and Peruvian tariffs for seafood will be eliminated immediately when TPP enters into force.[13] For Japan, 58% of duties on fish and seafood will be eliminated entry into force, 95% within six years and 99% within 11 years. All will be eliminated within 16 years.[14] All Vietnam's tariffs on fish and seafood will be removed within four years.[15]

Table 1: Overview of tariff elimination for fish and seafood (HS code: 03)

	Country	Tariff Range	Tariff Elimination Period
Current zero tariffs	Australia, Brunei, Singapore	0%	
All tariffs eliminated EIF	Canada	0% - 6.5%	EIF
	Chile	6%	EIF
	Malaysia	0% - 10% (Most of the base rates are zero)	EIF
	New Zealand	0% - 5%	EIF
	Peru	0% - 9% (Most of the base rates are zero)	EIF
Most tariffs	Vietnam	0% - 20%	EIF

9 For more details on what the TPP11 provides for food and agricultural products, please see our Fresh/Frozen and Processed Food materials produced in conjunction with Food Industry Asia. Available online at:

10 Note some safeguard rules for Japan on certain types of seafood.

11 Australian Department of Foreign Affairs and Trade (DFAT). Trans-Pacific Partnership Agreement. Outcomes: Good market access. Retrieved from: http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/outcomes-goods-market-access.aspx [Accessed: January 9, 2017]

12 Australian Department of Foreign Affairs and Trade (DFAT). Trans-Pacific Partnership Agreement. Outcomes: Good market access. Retrieved from: http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/outcomes-goods-market-access.aspx [Accessed: January 9, 2017]

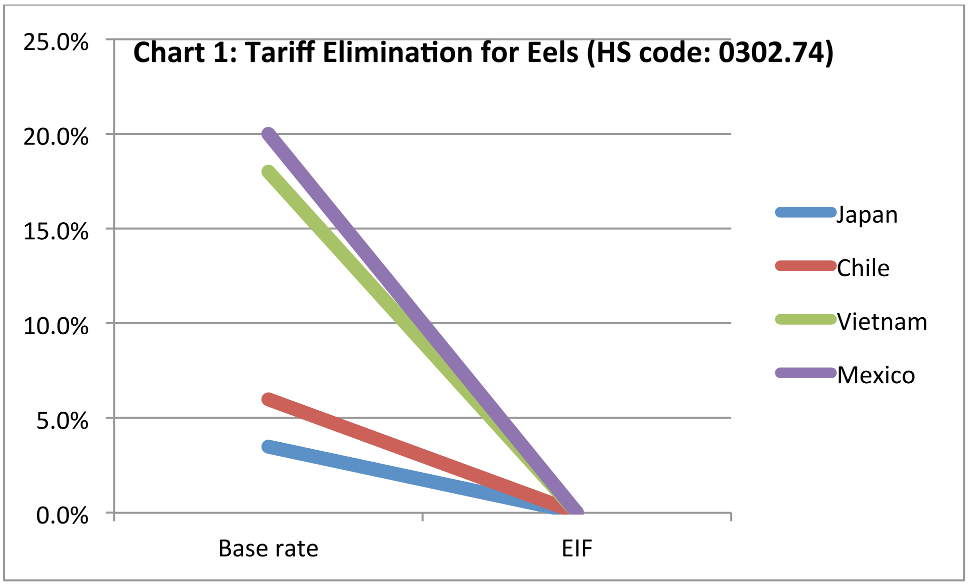
13 Australian Department of Foreign Affairs and Trade (DFAT). Trans-Pacific Partnership Agreement. Outcomes: Good market access. Retrieved from: http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/outcomes-goods-market-access.aspx [Accessed: January 9, 2017]

14 New Zealand Ministry of Foreign Affairs and Trade (MFAT). Trans-Pacific Partnership. Goods Market Access. Retrieved from: https://www.tpp.mfat.govt.nz/assets/docs/TPP_factsheet_Goods-Market-Access.pdf.PDF [Accessed: Jan 9, 2017]

15 New Zealand Ministry of Foreign Affairs and Trade (MFAT). Trans-Pacific Partnership. Goods Market Access. Retrieved from: https://www.tpp.mfat.govt.nz/assets/docs/TPP_factsheet_Goods-Market-Access.pdf.PDF [Accessed: Jan 9, 2017]

eliminated EIF		31% - 34% (14 tariff lines)	4 years
Complicated tariff schedule	Japan	0% - 15%	Most will be eliminated within 11 years, a few in 16 years
	Mexico	0% - 20%	15 years

Chart 1: Tariff Elimination for Eels (HS code: 0302.74)



Wine and alcoholic drinks (HS code: 2204 to 2208)

With 42% of Australian wine exports in 2015-2016 being shipped to TPP countries,[16] wine exporters from Australia could see substantial benefits from TPP tariff elimination when the deal comes into force.

Except for Brunei (which currently imposes zero tariffs on wine and alcoholic drinks), the remaining ten members will eliminate tariffs for these products within 16 years. Notably, within 12 years, Vietnam will eliminate all tariffs on wine and alcoholic drinks which currently range from 10% to up to 59%.

Of course, tariffs are not the only issue for exporters, but high tariffs can make it difficult to be competitive in markets. Wine and spirits producers may also want to examine Annex 8A, in the Technical Barriers to Trade (TBT) chapter which covers mostly labeling and certification rules for the sector. Since standards are increasingly used to keep out foreign products, provisions like 8A are a vital—but hard to measure—part of the TPP arrangements.

Table 2: Overview of tariff elimination for wine and non-alcoholic drinks (HS code: 2204 to 2208)

	Country	Tariff Range	Tariff Elimination Period

[16] Australian Department of Foreign Affairs and Trade (DFAT). Trans-Pacific Partnership Agreement. Outcomes: Good market access. Retrieved from: http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/outcomes-goods-market-access.aspx [Accessed: January 9, 2017]

Current zero tariffs	Brunei	0%	
All tariffs eliminated EIF	Australia	0% or 5%	EIF
	Canada	0% - 6.5% 0 to 35.2 cents/litre	EIF
	Chile	6%	EIF
	New Zealand	0% or 5% $0.5/L al	EIF
	Singapore	0 or S$8.00 per litre of alcohol	EIF
More complicated tariff schedules	Japan	0% - 27.2% 0 - 182 yen/litre 0 - 15.0% or 125 yen/l, whichever is the less, subject to a minimum customs duty of 67 yen/l 29.8% or 23 yen/kg, whichever is the greater	11 years
	Malaysia	20% RM1 – RM58 RM25.5 – RM108.5 per 100% vol. per litre	16 years for every tariff line
	Mexico	10% or 20% (mostly 20%) 10% + 0.36 USD/kg on sugar content	15 years
	Peru	9%	EIF or 6 years or 16 years
	Vietnam	10% - 59%	12 years

Chart 2: Tariff Elimination for Sparkling Wine - ad valorem tariffs (HS code: 2204.10)

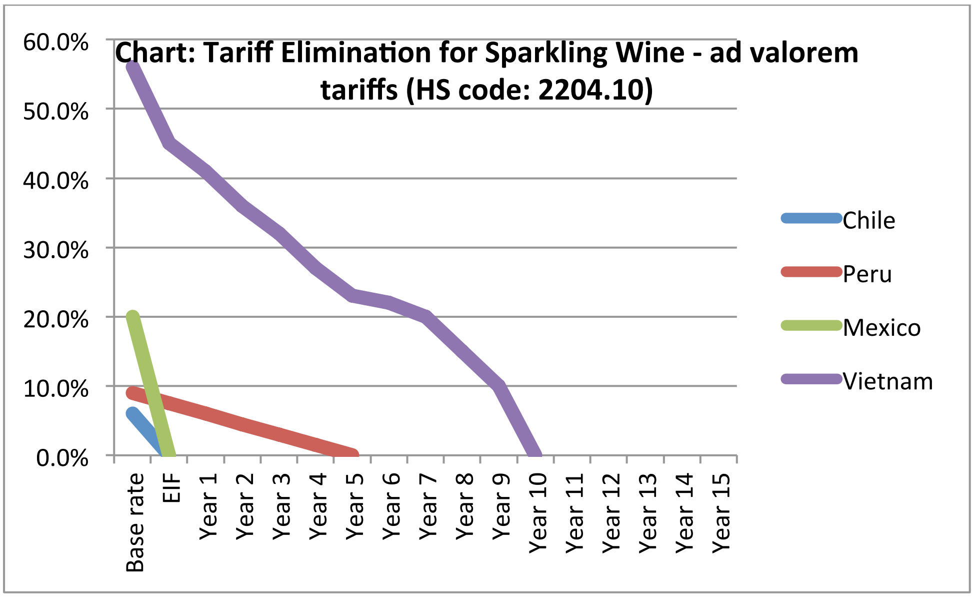
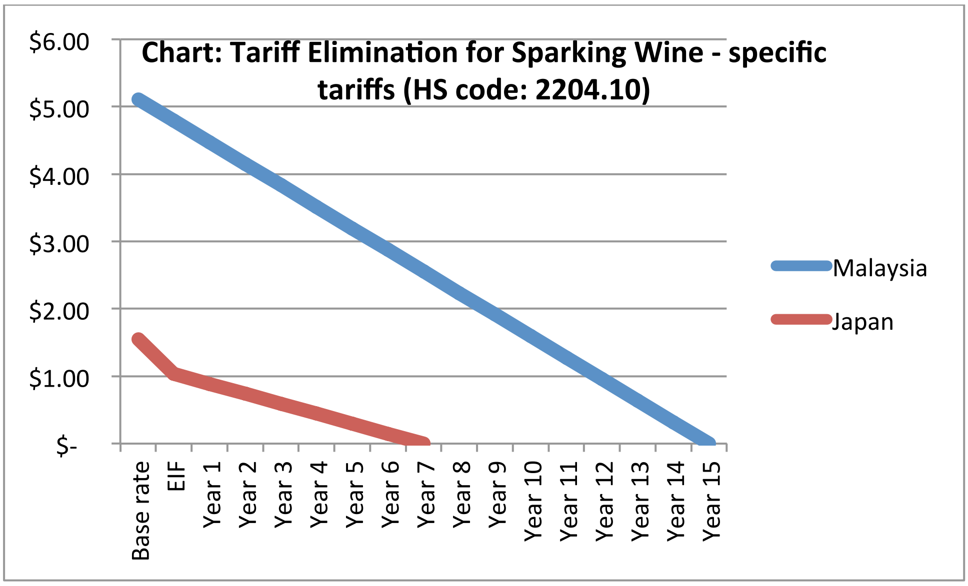


Chart 3: Tariff Elimination for Sparking Wine - specific tariffs (HS code: 2204.10)*



*: The specific tariffs are in ringgit (RM) for Malaysia and yen for Japan. The tariffs have been converted into dollar value in this chart with the exchange rate on January 9th 2017 as: 1USD~4.5RM, and 1USD~117.2Yen

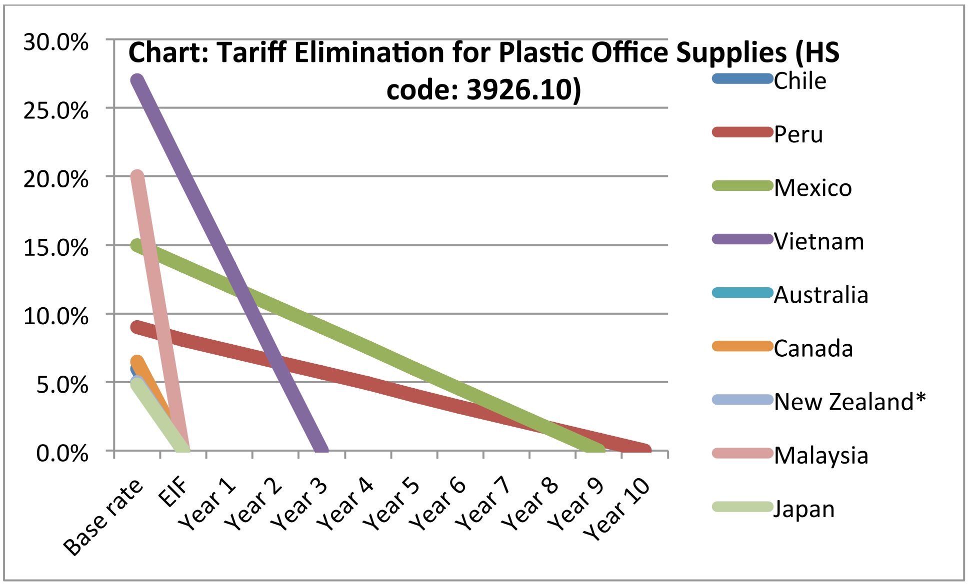
Plastics (HS code: 39)

Plastic manufacturers in TPP countries will see substantial benefits from tariff elimination under the TPP. Except for Brunei and Singapore which currently levy zero duties, all other nine countries will eliminate tariffs on plastics within 11 years.

Table 3: Overview of plastics (HS code: 39)

	Country	Tariff Range	Maximum Tariff Elimination Period
Current zero tariffs	Singapore	0%	
	Brunei	0%	
All tariffs eliminated EIF	Canada	0% - 6.5%	EIF
	Japan	0% - 6.5% 6.5% or 22.40 yen/kg, whichever is the less	EIF
Most tariffs eliminated EIF	Australia	0% - 5%	4 years
	Chile	6%	4 years
	Malaysia	0% - 20%	11 years
	New Zealand	0% - 10%	7 years
More complicated tariff schedules	Mexico	0% - 15%	10 years
	Peru	0% - 9%	11 years
	Vietnam	0% - 31%	4 years

Chart 4: Tariff Elimination for Plastic Office Supplies (HS code: 3926.10)



Note: *All plastic office supplies except for electronic stencils and erasers.

Essential oils, perfumery, cosmetics and toilet preparations (33), and soap and other cleansers (34)

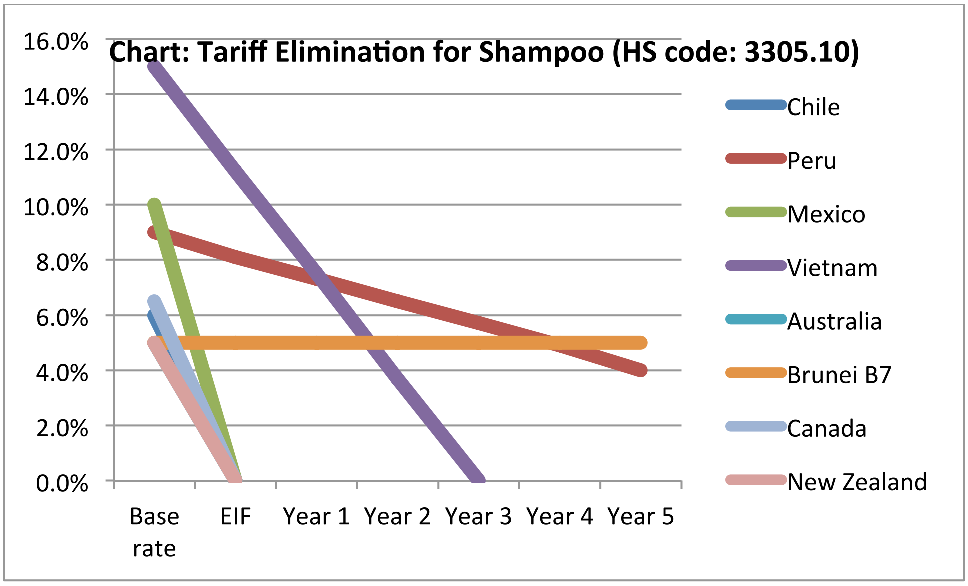
All of the tariffs imposed on essential oils, perfumery, cosmetics, toilet preparation, and soap and other cleansers will be eliminated within six to seven years in most TPP members. Note that Vietnam will eliminate almost all tariffs of 30% on these products within 4 years.

Table 4: Overview of tariff elimination for essential oils, perfumery, cosmetics, toilet preparations, soap and other cleansers (HS code: 33 and 34)

	Country	Tariff Range	Maximum Tariff Elimination Period
Current zero tariffs	Singapore	0%	
All tariffs eliminated EIF	Australia	0% - 5%	EIF
	Canada	0% - 10.5% $0.7/litre plus 19%	EIF
	Chile	6%	EIF
Most tariffs eliminated EIF	Japan	0% - 5.4% 9%	EIF 6 years
	New Zealand	0% - 5%	7 years
More complicated tariff schedules	Brunei	*For HS code 33:* 0% - 5% 30% $250/dal *For HS code 34:* 0% - 5% 44 cents/dal to 11 cents/kg	 7 years EIF 11 years 7 years 7 years
	Malaysia	*For HS code 33*: all zero tariffs *For HS code 34:* 0% - 20%	 6 years

	Mexico	0% - 30%	10 years
	Peru	0% - 9%	11 years
	Vietnam	0% - 30%	5 years (Almost all will be eliminated in 4 years)

Chart 5: Tariff Elimination for Shampoo (HS code: 3305.10)



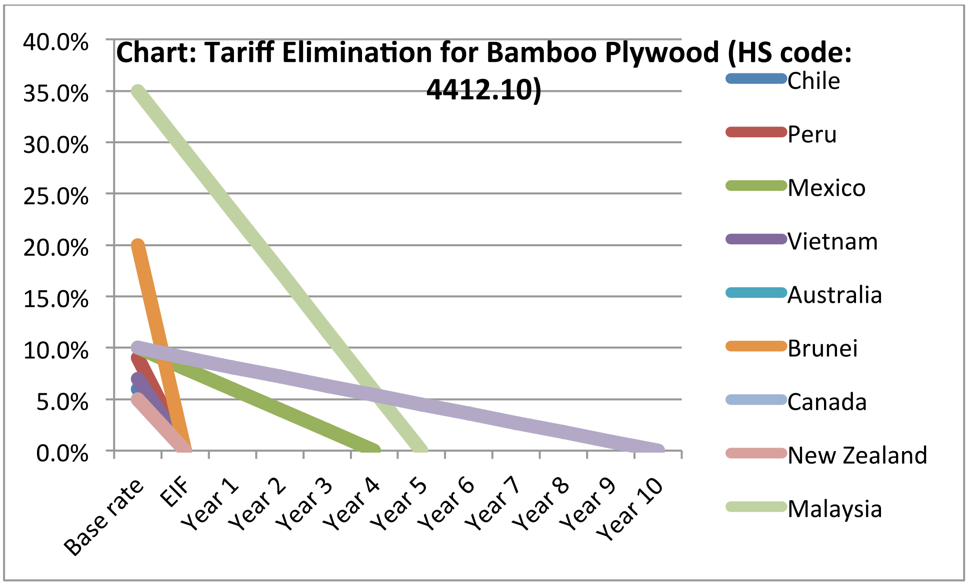
Wood (HS code: 44)

Wood products imported into 11 TPP countries will see benefits from tariff elimination under the TPP. More than half of the TPP countries committed to remove tariffs within 7 years. Market access to Vietnam for many wood products will be widely opened on the first day of the TPP when all of the tariffs of up to 31% will be eliminated entry into force. Mexico, Peru and Japan will take 10, 11 and 16 years.

Table 5: Overview of tariff elimination for wood, articles of wood and wood charcoal (HS code: 44)

	Country	Tariff Range	Maximum Tariff Elimination Period
Current zero tariffs	Singapore	0%	
All tariffs eliminated EIF	Brunei	0% -20%	EIF
	Canada	0% - 9.5%	EIF
	Chile	6%	EIF
	Vietnam	0% - 31%	EIF
Most tariffs eliminated EIF	Australia	0% - 5%	4 years
	Malaysia	0% - 40%	6 years
	New Zealand	0% - 5%	7 years
More complicated tariff schedules	Japan	0% - 10%	16 years
	Mexico	0% - 15%	10 years
	Peru	0% - 9%	11 years

Chart 6: Tariff Elimination for Bamboo Plywood (HS code: 4412.10)



Furniture, Bedding, Mattresses, Cushion and Similar Stuffed Furnishings (HS code: 94)

Except for Singapore which has zero tariffs, the other ten TPP countries have committed to eliminate all their tariffs for furniture, bedding, mattresses, and cushion products. All of Chile's 6% tariffs for these products will be removed on the first day of the TPP. For most countries, like Australia, Brunei, Canada, Japan, and New Zealand, tariff elimination will be done on entry into force. The tariff phase out periods for other countries are four years for Vietnam, six years for Peru, ten years for Mexico and 11 years for Malaysia.

Most of furniture, bedding, mattresses, and cushion products are subject to five percent tariff when being exported to Australia. When the TPP comes into force, all most all of these tariffs will be removed, except for a few products where tariffs will take four years to phase out.

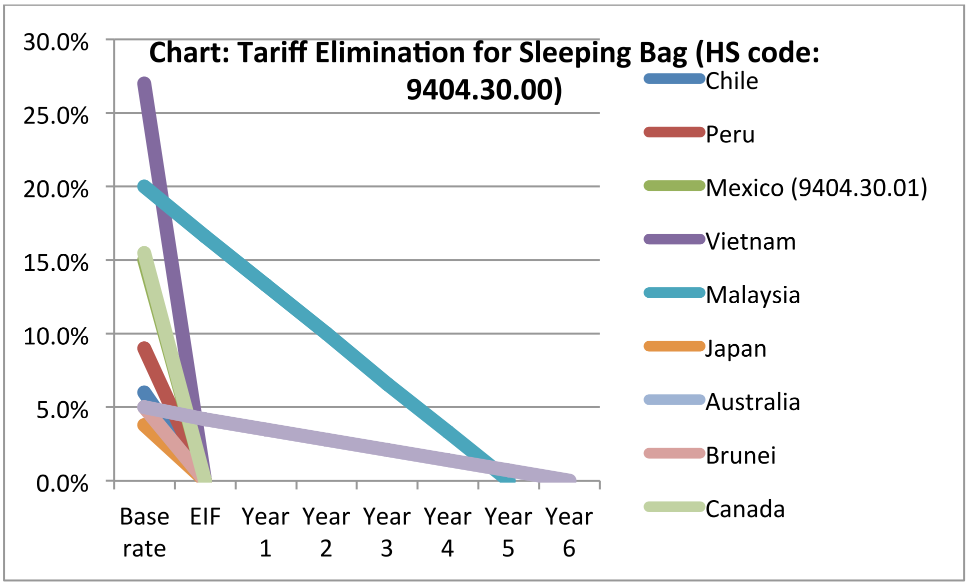
Brunei, which levies zero tariffs for most for its imports, agreed to eliminate the current tariff of five percent for most furniture products on entry into force or within seven years for a few items.

Table 6: Overview of tariff elimination for furniture, bedding, mattresses, cushion and similar stuffed furnishings (HS code: 94)

	Country	Tariff Range	Maximum Tariff Elimination Period
Current zero tariffs	Singapore	0%	
All tariffs eliminated EIF	Chile	6%	EIF
Most tariffs eliminated EIF	Australia	0% or 5%	4 years
	Brunei	0% or 5%	7 years
	Canada	0% - 15.5%	6 years
	Japan	0% - 4.8% (many of the base rates are now zero)	11 years

	New Zealand	0% - 10%	7 years
Complicated tariff schedule	Malaysia	0% - 30%	11 years
	Mexico	0% - 15%	10 years
	Peru	0% or 9%	6 years
	Vietnam	0% - 31%	4 years

Chart 7: Tariff Elimination for Sleeping Bags (HS code: 9404.30.00)



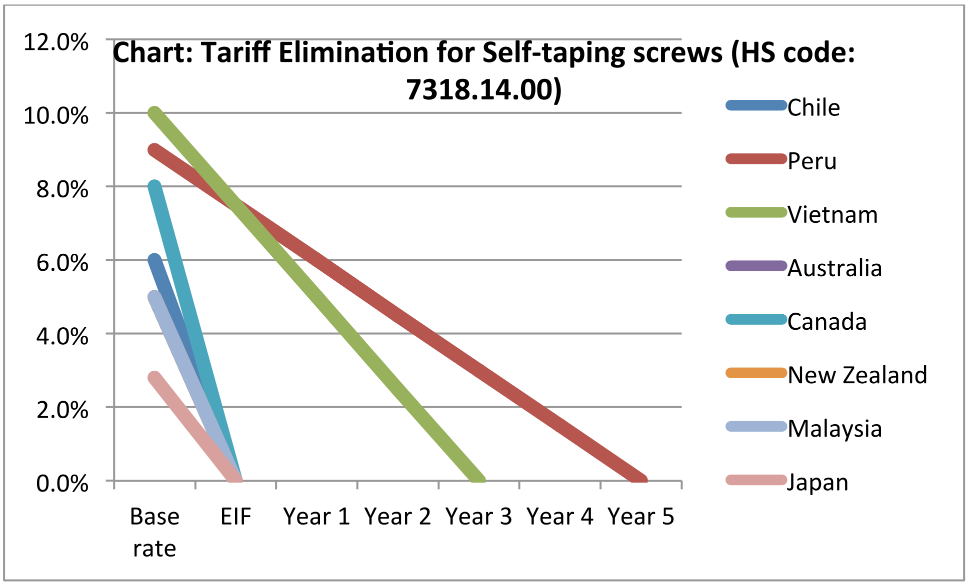
Articles of Iron and Steel (HS code: 73)

Except for duty-free Singapore, all ten TPP countries have committed to eliminate tariffs on articles of iron and steel imported from other members. All tariffs will be eliminated within 11 years from the day TPP enters into force. Vietnam has agreed to eliminate tariffs of up to 40% within four years.

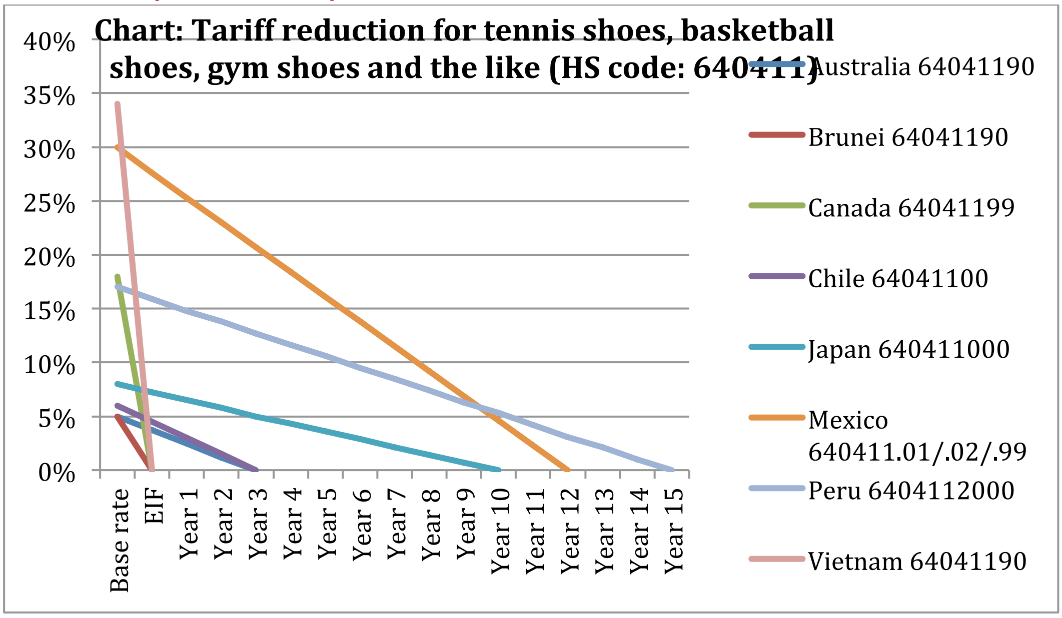
Table 7: Overview of tariff elimination for articles of iron and steel (HS code: 73)

	Country	Tariff Range	Maximum Tariff Elimination Period
Current zero tariffs	Singapore	0%	
All tariffs eliminated EIF	Japan	0% - 3.3%	EIF
	Canada	0% - 6.5%	EIF
Most tariffs eliminated EIF	Australia	0% - 5%	4 years
	Brunei	0% - 20% (almost all current tariffs are zero)	7 years
	New Zealand	0% - 5%	7 years
More complicated tariff schedules	Chile	6%	8 years
	Malaysia	0% - 20%	11 years
	Mexico	0% - 20%	10 years
	Peru	0% - 9%	11 years
	Vietnam	0% - 40%	4 years

Chart 8: Tariff Elimination for Self-taping screws (HS code: 7318.14.00)



Footwear (HS code: 64)



Note: Under textile and footwear sections, each country has their own way to categorize different types of footwear. The tariff equivalence in this chart is based on the author's judgment.

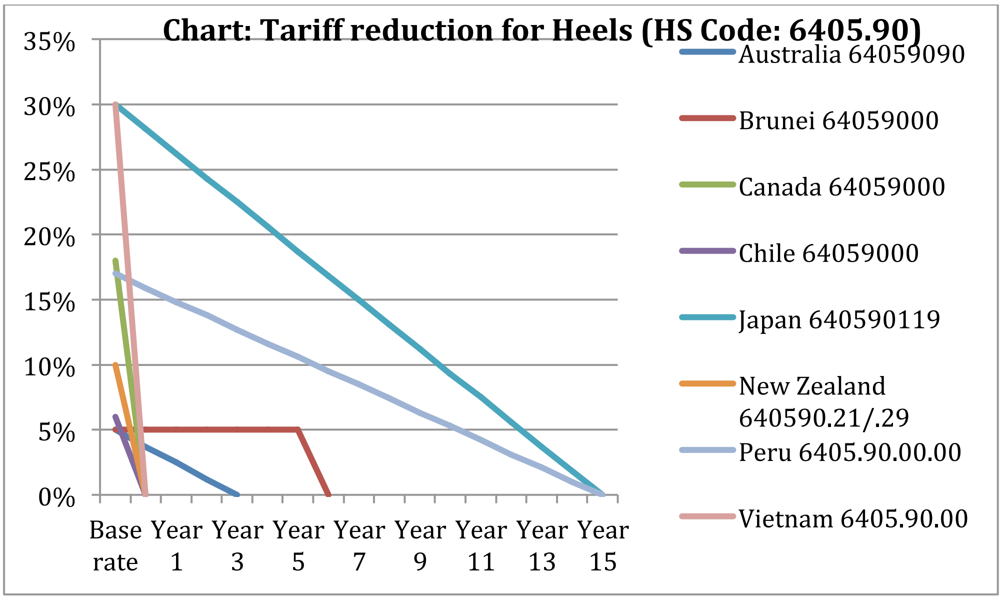
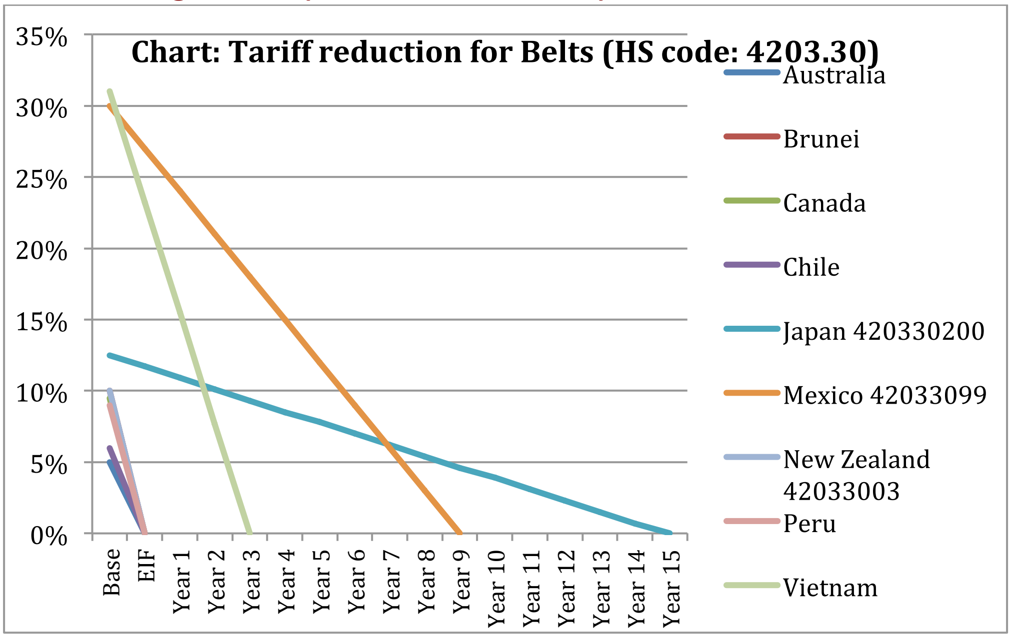
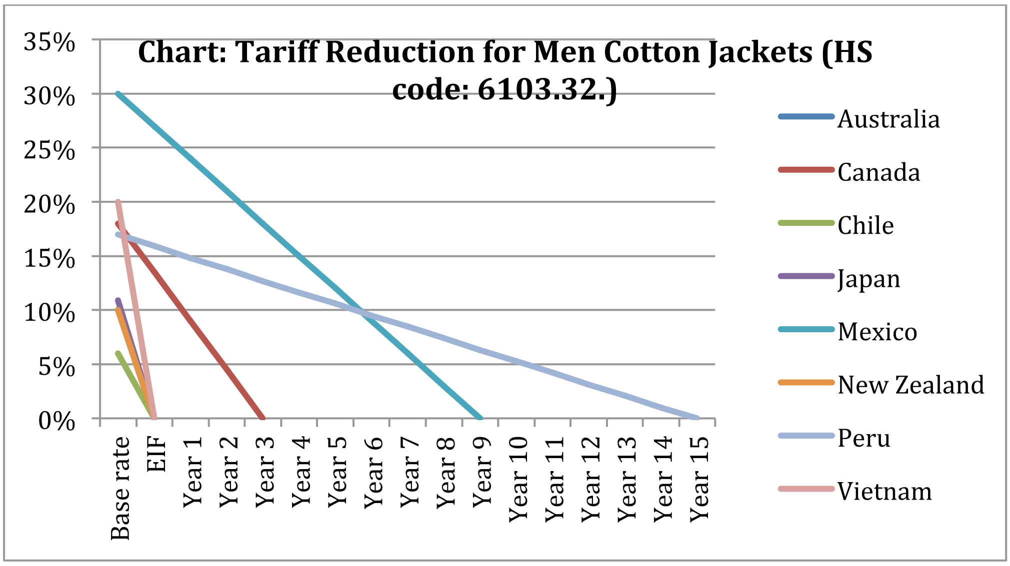


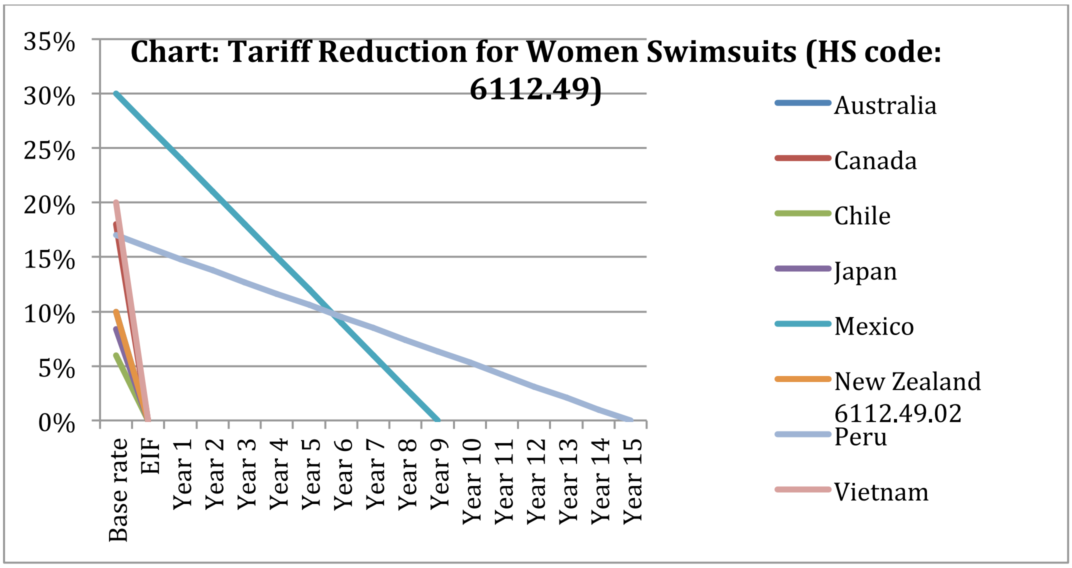
Chart: Tariff reduction for Heels (HS Code: 6405.90)
35%
30%
25%
20%
15%
10%
5%
0%
Base rate
Year 1
Year 3
Year 5
Year 7
Year 9
Year 11
Year 13
Year 15
Australia 64059090
Brunei 64059000
Canada 64059000
Chile 64059000
Japan 640590119
New Zealand 640590.21/.29
Peru 6405.90.00.00
Vietnam 6405.90.00

Textile and garment (HS codes: 42, 61, 62)

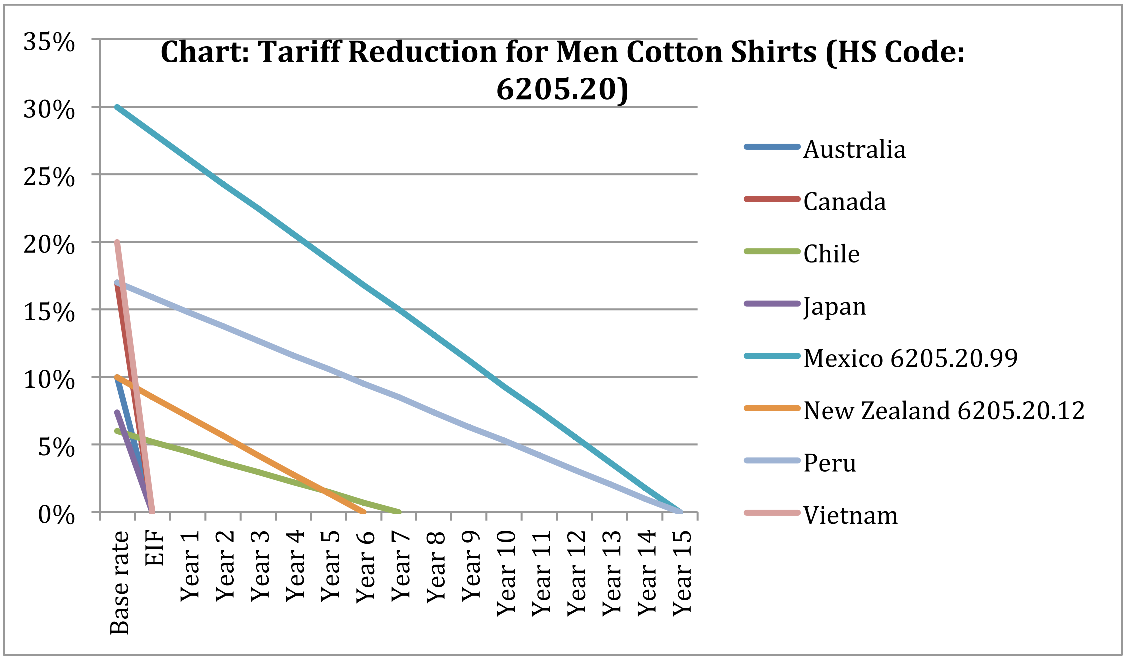


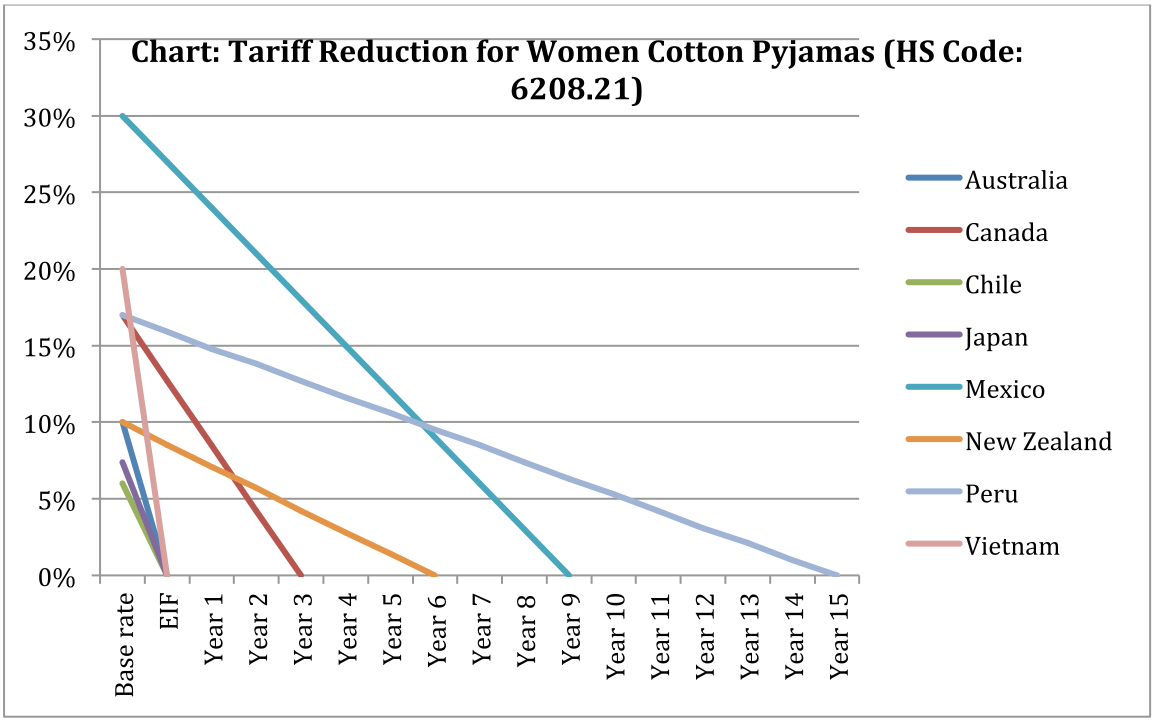


Note: Australia and New Zealand have same tariff schedule for men cotton jackets.



Note: Australia and New Zealand have same tariff schedule for women's swimsuits.





Conclusions

The TPP continues to offer substantial market access benefits to participating member countries. Firms that operate in and across the TPP will face fewer tariff barriers with lower rates as quickly as the first day of the agreement.

While very important, member governments did not throw open doors to market access in goods immediately, nor did they open all sensitive goods markets automatically. For some products, especially agricultural items that have not been subjected to market opening in the past, governments proceeded very cautiously in the TPP.

Tariff cuts are the easiest elements of the agreement to see and to measure. But the complicated and interlocking nature of the TPP means that firms should not just focus attention on this aspect of the agreement. The TPP also provides firms with lower risk and greater certainty as well as improved opportunities for doing business across TPP member markets. The interlocking nature of commitments means that firms—large and small—receive benefits scattered in chapters all across the deal.