



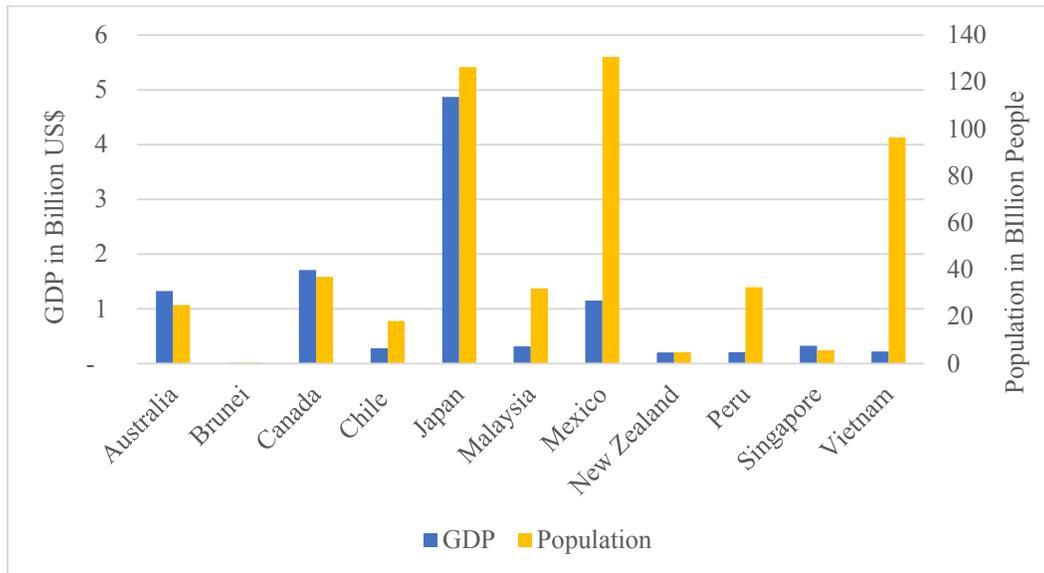
## The CPTPP and Benefits to Canadian Agriculture

*Published by Farm Foundation and the Canadian Agri-Food Policy Institute, this analysis was done by Dr. Don Buckingham and Al Mussell*

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### Introduction

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) covers 11 nations on the Pacific Rim.<sup>1</sup> Six nations—Canada, Australia, Japan, Mexico, New Zealand, and Singapore—ratified the agreement in late 2018, bringing it into force for those nations on Dec. 30, 2018. A seventh country, Vietnam, has since ratified the agreement. Japan is easily the largest economy among member countries, followed by Canada, Australia, and Mexico (Figure 1). However, the CPTPP provides access for others with a large population base, notably Vietnam, and others with a population growing faster than Canada’s, such as Malaysia and Peru (Figure 1).



**Figure 1. CPTPP Member Country GDP and Population**

Source: World Bank and United Nations Population Division. World Population Prospects: 2017 Revision

<sup>1</sup> Canada, Mexico, Peru, Chile, New Zealand, Australia, Malaysia, Vietnam, Brunei, Singapore, Japan.

The CPTPP provides for increased market access among member countries and will shape trade competition across countries more broadly under the trade preferences implied under the agreement. This is complex, sometimes referred to as a “noodle bowl” of cross-cutting and segmented FTAs. Several CPTPP members already have bilateral or regional Free Trade Agreements (FTAs) with other CPTPP members. For example, Canada already has FTAs in place with Mexico under NAFTA—with the new U.S.-Mexico-Canada Agreement (USMCA) not yet ratified—Chile and Peru. Others, such as Mexico, also have existing FTAs with a number of CPTPP members. Some CPTPP members have FTAs with others outside of CPTPP that include significant competitors to Canada. For example, Canada, Mexico, Australia, Chile, Peru and Singapore each have FTAs with the United States while Canada and several other members also have FTAs with the European Union (EU).

## Assessing CPTPP – A Strategic Level Approach

Given the complexities of individual products, markets and firms, in addition to the noodle bowl problem of cross-cutting FTAs, a first level analysis of the CPTPP from the Canadian perspective employs an incremental approach. First, in assessing effect, access under existing FTAs is considered. Secondly, existing base or Most Favored Nation (MFN) tariff rates<sup>2</sup> are examined. This establishes what the effective new access really is under the CPTPP for Canada. Next, the competitive reality of prospective markets is examined. This consists of the size of the market, the existing suppliers of imports to CPTPP member-country markets and the market access of competitors post-CPTPP. The logic is that it is only truly new and meaningful market access under the CPTPP that has value to Canada.

This approach is applied to agri-food products in which Canada has an “offense” interest as an exporter. A subset of indicator products—pork, beef, wheat, canola, soybeans, and potatoes—is used to identify the prospective opportunity and strategic focus. Setting this stage empirically draws on data from the CPTPP annexes, member country tariff schedules, United Nations (UN) Comtrade data on existing product trade flows and data from the Organisation for Economic Co-operation and Development (OECD) on consumption and production.

The set of agri-food products in which Canada has “defense” interests are relatively narrow—dairy, poultry, and eggs—and are considered along with new market access conceded under the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU, and the access anticipated under the USMCA with the United States and Mexico.

## Canada on “Offense” – Trade Opportunities under the CPTPP

The existing base tariffs for several agricultural products are already zero for many product/country combinations. (See Appendix 1. The upper panel presents an overview of existing/base tariff rates facing Canada; the lower panel summarizes the tariff reduction schedule

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<sup>2</sup> MFN tariffs are those tariff rates that WTO-member countries have agreed to impose on imports from other WTO-member countries as part of their WTO obligations.

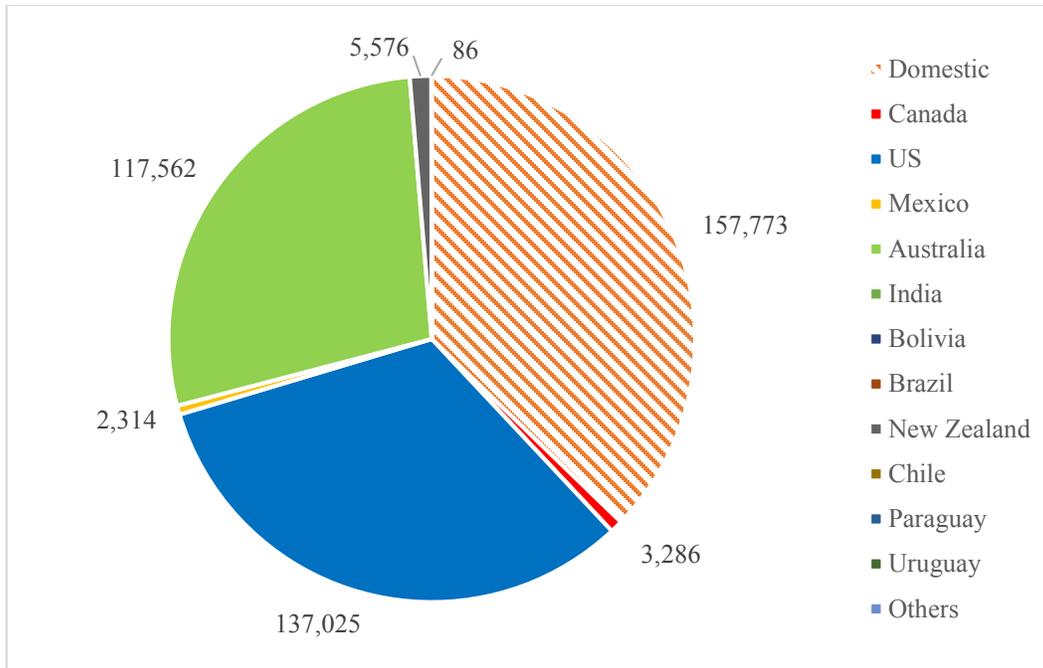
under the CPTPP). For Canada, five CPTPP members already have zero rates of duty on all of the indicator products and thus no increase in market access can occur under the CPTPP.

The table shows that the clear exception is Japan. Japan has significant duties in place for pork under its safeguard (differential duty system or “gate price”) mechanism, relatively high tariffs for beef and wheat, and lower tariffs for potatoes. Canada has no existing FTA or preferential access to Japan, so what is obtained under the CPTPP is new market access for Canada. Finally, Japan is a very large market for Canada in relation to either economic size or population, and one in which Canada is already established as a supplier of Japanese imports.

Under the CPTPP, Canada will see significant reductions in some of these tariffs. (See lower panel of Appendix 1.) With regards to Japan, Canada obtained a significant reduction in the tariffs applicable in the gate price mechanism for pork. The changes are complex, with some tariff reductions occurring upon entry into force while others are phased in. Canada also obtained material relief on barriers to market access on beef, with tariffs decreasing from a base of 38.5% to 9% over 16 years. The access for wheat obtained by Canada is complex, involving a country-specific quota for Canada of 40,000 MT for certain product lines and an elimination in tariff under Japan’s global tariff rate quota (TRQ) over five years for other product lines.

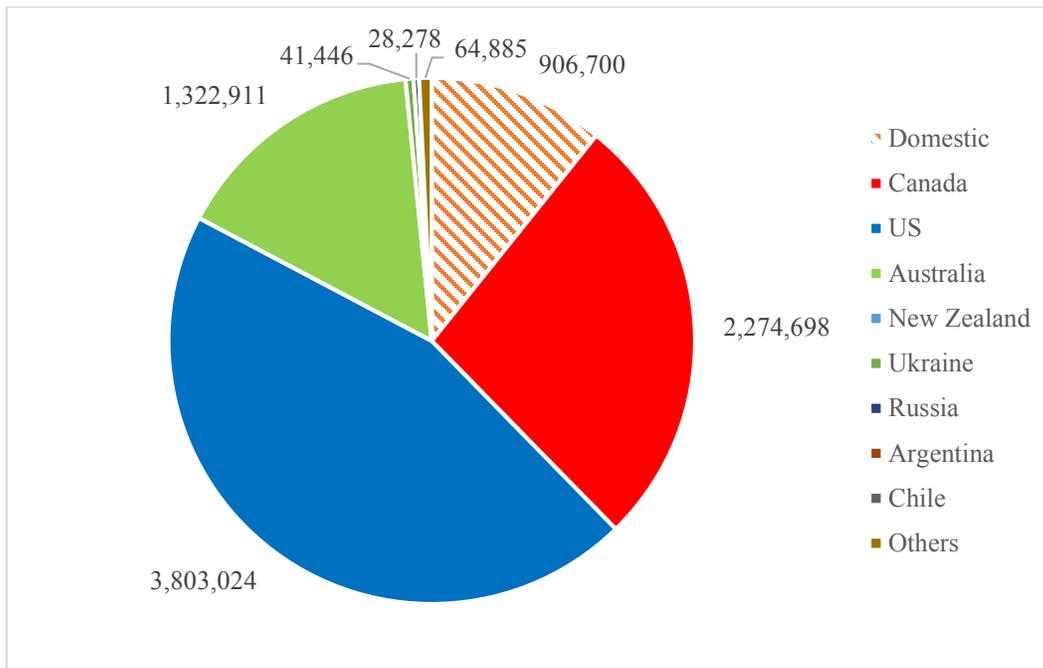
The other countries that show significant existing levels of protection on indicator products are Malaysia, Vietnam and Peru for pork and beef, as well as Vietnam for potatoes. Malaysia will eliminate its pork TRQ in 16 years for CPTPP members. Vietnam and Peru will phase out tariffs on pork over nine and 11 years, respectively, with some pork tariffs reduced more quickly than this. Provisions for beef are very similar to pork for Peru, with Vietnam eliminating beef tariffs four years into the agreement. Vietnam will eliminate tariffs on potatoes four years into the agreement.

Interestingly, the competitive conditions influencing Canada in Japan versus Malaysia, Peru or Vietnam are entirely different. For pork, beef and wheat, imports into Japan comprise the major source of supply (in beef and wheat, the majority), and the United States currently has a leading position as a supplier of Japanese imports. (See Figures 2 and 3.) Under the CPTPP, Canada will have preferential tariff rates into the Japanese market compared to the United States, which it can leverage to compete favourably with U.S. product. Some of this preferential access comes with entry into force, or is front-loaded. However, it is important to appreciate that Canada will likely face more focused competition in Japan from other CPTPP members in beef and wheat (notably Australia and New Zealand) and also from EU countries in pork under the EU’s recently concluded FTA with Japan.



**Figure 2. Sources of Chilled Beef into Japan (2017, tonnes)**

*Source: UN Comtrade, OECD data*



**Figure 3. Sources of Wheat into Japan (2017, tonnes)**

*Source: UN Comtrade, OECD data*

In the case of Malaysia, Peru and Vietnam, markets in pork and beef are largely sourced from domestic production, with neighbouring states and regional suppliers capturing the rest of the national market in these three countries. In addition, the increased access under the CPTPP may be phased in over a longer period of time. In Malaysia, for example, where beef imports are

dominated by frozen product from India, Canada currently has almost no market presence. With the TRQ to be in place for 16 years, the trade preferences granted in the CPTPP will create less of a competitive advantage versus rival suppliers, such as the United States. Therefore, it will take time to build market presence for beef in Malaysia even for CPTPP members, including Canada.

The major focus for Canada in agri-food under the CPTPP is on Japan, with the prospect to use trade preferences to expand market share at the expense of the United States. Also, Canada will need to confront renewed competition in the Japanese market from Australia, New Zealand and some EU countries. In doing so, Canada faces two difficult challenges. The first is, “How will Canada effectively market product into a market that is so much greater in size than its own, in a manner such that Canada’s structural niche can effectively be positioned?”

The second question is, “Does Canada have, or can it quickly develop, the capacity to effectively exploit these new opportunities?” The issue is most protracted in beef. The Canadian beef cow herd was an estimated 3.7 million head in 2018, trending down from just under 4.8 million head in 2018. Moreover, Canada obtained TRQ access the EU for beef of about 50,000 MT in CETA. It is likely that the capacity to fill all of the recently obtained beef market access does not exist and will need to be built up over time. The situation is similar, but not as protracted, in pork. In field crops, adequate capacity is less of a concern for Canada.

### Canada on “Defense” – Domestic Interests Affected by the CPTPP

The CPTPP gives members access to export a range of dairy, poultry and egg products into Canada. (See Appendix 2.) The columns in the table present levels of access granted by Canada according to FTAs (i.e., the USMCA, the CETA and the CPTPP). The rows in the table summarize product groupings, with the upper panel dairy products and the lower panel poultry and eggs. In some cases, FTAs group products differently and there can be repetition of products.

The table shows that access granted by Canada in the CPTPP and the USMCA is quite similar, with the exception of cream access which is much larger under the USMCA. Access under the CETA was strictly focused on cheese. With respect to some products covered in the CPTPP, such as fluid milk and cream, only the United States has a realistic capability to export to Canada. Although both Australia and New Zealand have the capacity to do so, the transportation distances are too great for these products to realistically penetrate the Canadian market. For these dairy products, the likelihood of filling the TRQs from Australia and New Zealand is low. For cheese, butter and dried products, it can be anticipated that these will be filled, primarily by Australia and New Zealand.

CPTPP provides for significant access for chicken, turkey, eggs/equivalents and hatching egg equivalents. In the case of eggs and hatching eggs, similar to some dairy products, the access levels in CPTPP anticipated U.S. membership. The questionable feasibility of transporting of eggs, hatching eggs or chicks from CPTPP member countries to Canada is likely to mean that these TRQs may not be filled.

The increases in access from recent FTAs represent lost sales to Canadian supply managed industries, which will hurt. Compensation for losses due to access granted in CPTPP and USMCA is a topic of current discussion in Canada. However, the levels of access are not sufficient as to undermine Canadian supply management systems.

## Conclusion

In a time when multilateralism in trade is under pressure, and even on the margins, the completion and ratification of the CPTPP, and its success in facilitating trade in farm and food product, is critical. For agri-food exports from Canada, the primary focus of incremental gains from trade in the CPTPP relates to Japan and relates to meats and cereals. Under the CPTPP, preferential access to agri-food markets in Japan accrues to Canada, Australia and New Zealand, and tilts the competitive landscape against the United States. A secondary opportunity will be Malaysia, Vietnam and Peru, but these are very different markets dominated by domestic production and imports from the surrounding region, with access developing over a more extended period.

With Can \$64 billion<sup>3</sup> in total agri-food exports in 2017, Canada has a goal to increase its exports to Can \$85 billion by 2025.<sup>4</sup> The opportunities presented by the CPTPP are a boost for Canadian agri-food exports to find new markets while diversifying trade flows, destinations and partners. Estimates by the Canadian Agri-Food Trade Alliance suggest that new export market access under the CPTPP is expected to provide for the following benefits for several parts of the agri-food industry:

- Beef – expected increase in exports of almost Can \$600 million
- Fruits and vegetables – expected increase in exports of Can \$345 million
- Processed foods – expected increase in exports of Can \$237 million
- Pork – expected increase in exports of more than Can \$200 million
- Oilseeds and vegetable oil – expected increase in exports of almost Can \$18 million
- Overall, agri-food sales are expected to rise by a total of Can \$1.84 billion<sup>5</sup>

In responding to the opportunities created by CPTPP, the challenge to Canada will be to effectively position product in markets far larger than its own, and to develop sufficient capacity to make its products relevant to the scale of Japan. Conversely, the market access granted under CPTPP is damaging to Canadian supply-managed industries, but will not be fatal to them.

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<sup>3</sup> Can\$ 1=US\$ .75 as of early March 2019

<sup>4</sup> Government of Canada, **Agri-Food Economic Strategy Table Report**, September 2018

<sup>5</sup> <http://cafta.org/trade-agreements/cptpp/>

### Appendix 1. Base Tariff Rates and Tariff Reduction Schedule under CPTPP

Base tariff rates										
	Australia	Brunei	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Vietnam
Pork	0	0	6%	4.3% over gate price Safeguard ¥361-482/kg	TRQ on half carcasses, 25% in quota 50% over quota, 0 Not elsewhere specified (NES)	0	0	6%	0	15-27%
Beef	0	0	6%	38.50%	TRQ on half carcasses, 25% in quota 50% over quota, 0 NES	0	0	11%	0	15-31%
Wheat	0	0	0	¥55/kg	0	0	0	0	0	5%
Canola	0	0	0	0	0	0	0	0	0	5%
Soybeans	0	0	0	0	0	0	0	0	0	0
Potatoes	0	0	0-6%	3-4%	0	0	0	9%	0	20%
Tariff reduction schedule										
Pork			0 on Entry into force (EIF)	2.2% over gate price on EIF, ↓0 over 10 years Safeguard ↓¥93.75-125/kg on EIF	TRQ phase out Year 16			0 by year 11 (some less)		0 by year 9 (some less)
Beef			0 on EIF	9% by year 16	TRQ phase out Year 16			0 by year 11 (some less)		0 by year 4
Wheat				Country Specific Quota (CSQ), ↓in quota tariff to ¥16.1				0		0 on EIF
Canola								0		0 on EIF
Soybeans								0		0
Potatoes			0 on EIF	0 on EIF				0 on EIF		0 by year 4

**Appendix 2. Dairy, Poultry, and Egg Access, by Agreement, Year 6**

	USMCA	CETA	CPTPP	WTO-Global	Total
	Metric Tons				
Milk	50,000		50,000	64,500	164,500
Cream	10,500		580	394	11,474
Skim Milk Powder (SMP)	7,500		7,500		15,000
Butter +Cream Powder	4,500				4,500
Industrial Cheese	6,250	1,700	7,975		15,925
Cheese all types	6,250	16,600	3,625	19,612	46,087
Yogurt and Buttermilk	4,135		6,000	332	10,467
Whey Powder	4,135		6,000	3,198	13,333
Concentrated Milk	1,380		2,000	12	3,392
Milk Powders	690		1,051		1,741
Powdered Buttermilk	520		828	908	2,256
Products of Natural Milk Constituents	2,760		4,000	4,345	11,105
Ice Cream and Ice Cream Mixes	690		1,051	347	2,088
Other Dairy	690		1,051		1,741
Butter			4,500	1,964	6,464
Cream Powder			105		105
Mozzarella Cheese			2,900		2,900
Chicken	57,000		23,500	39,900	120,400
Turkey	3.5% production + up to 1000 MT		3,500	5,588	
Eggs (egg equivalent)	120,000,000		200,400,000	256,440,000	576,840,000
Hatching Eggs + chicks (egg equivalent)			12,000,000	161,530,159	173,530,159