THE 'JUST IN TIME' PLAN

CPTPP GUIDE
FOR SMALL BUSINESSES
IN WESTERN CANADA

NOVEMBER 2018 | CARLO DADE & NAOMI CHRISTENSEN

CANADA WEST FOUNDATION

NEW ZEALAND
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CPTPP guide for

SMALL BUSINESSES IN WESTERN CANADA

There are two critical facts for business to grasp about the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade deal that Canada has signed with 10 countries that rim the Pacific Ocean in the Americas and Asia. First, with the United States no longer part of the agreement, there is even more money on the table for Canadian exporters and less competition to access it. In tariff savings alone, the CPTPP will make available $428 million of potential savings for Canadian exporters. Second, this agreement provides benefits that go well beyond tariffs to make trade easier for smaller businesses.

The 11 countries that currently make up the CPTPP are Canada, Japan, Mexico, Malaysia, Singapore, Vietnam, Australia, New Zealand, Chile, Peru, and Brunei. Together, they account for 13.5 per cent of global GDP. The CPTPP has better rules than the renegotiated North American trade agreement, now called the United States-Mexico-Canada Agreement (USMCA), to address the frustrations that many small- and medium-sized exporters (SMEs) face.

Throughout the agreement's 30 chapters are benefits that ease major headaches for SMEs in doing business with the other 10 countries. The CPTPP:

- Lowers risk and uncertainty
- Eases the process of getting goods through customs
- Better protects business transactions, intellectual property and copyright
- Facilitates moving staff, technicians and salespeople to and from Canada without worrying about labour market opinions
- Chapter 24 outlines how to help SMEs engage in trade.

And, with U.S. President Donald Trump's withdrawal of the U.S. from the deal, SMEs will not have to face their usual American competitors. Canadian firms now have a huge advantage over American competitors for as long as the U.S. stays out of the agreement. The deal is not just about new business or trying to introduce products to new consumers. There is essentially $1.2 billion in products that consumers in CPTPP markets are already buying, *that Canadian firms can now supply rather than U.S. firms.*[2]

This guide uses fictional cases studies based on interviews with real companies to show how the CPTPP opens and accelerates the usual way of doing trade among participating nations, what that means for firms and how Canadian exporters and importers can take advantage of the new opportunities.

What is the CPTPP

The CPTPP is arguably the most important trade deal that the federal government has signed for businesses in western Canada, particularly for SMEs. The 11 countries that currently make up the CPTPP (Canada, Japan, Mexico, Malaysia, Singapore, Vietnam, Australia, New Zealand, Chile, Peru, and Brunei) account for 13.5 per cent of global GDP. Other countries are already queueing up to join the trade bloc and two-to-five new members, including potentially Colombia, Korea, and Thailand, could join the pact as soon as 2019 raising the bloc's percentage of global GDP to 18 per cent.

The CPTPP is best thought of as a larger, more dynamic version of USMCA, with one set of rules for all members. Even for CPTPP members with which Canada already has bilateral agreements, the CPTPP updates these agreements and removes duplication and contradictions between them. This will make life easier for business and create new possibilities for firms inside the agreement to make goods and market services together. This was the case with the North American Free Trade Agreement (NAFTA, now USMCA). Rather than three different and contradictory agreements between Canada-U.S., U.S.-Mexico and Canada-Mexico, NAFTA created one set of rules for all three. This created advantages for Canadian firms over competitors from Europe and Asia selling in North America. It also produced integrated supply chains that made the best use of each country's strengths. The CPTPP will do the same for Canadian firms trying to sell in South America and Asia.

FIGURE 1: ADVANTAGES OVER U.S. COMPETITORS

Canadian small and medium-sized enterprise	U.S. small and medium-sized enterprise
✓ Privileged access to 10 Asia-Pacific markets + Korea	Privileged access to 5 Asia Pacific markets + Korea
✓ CPTPP includes Japan	No trade deal with Japan
✓ Files same paperwork once for all 10. Once product clears one CPTPP country, it is good for all CPTPP countries	Separate paper work for each of the 5. Product has to clear rules for each country separately.
✓ Customs advance ruling, no surprises when product reaches market	Potential unpleasant surprise when product reaches customs officers in market
✓ Can add products and services from any CPTPP country and still claim CPTPP benefits	Can only add products and services from the other country in a bilateral agreement. Can't use services and goods from one bilateral arrangement for sale in a country under a different bilateral agreement
✓ Prospect of having preferential access to more countries as new countries join the CPTPP – excellent!	Prospect of having preferential access to more countries – slim to none.

HIDDEN BENEFITS OF THE CPTPP

Bilateral vs. multilateral agreements

One benefit of the CPTPP that is easy to miss is that there is one set of rules for every member country. Canada has signed 13 trade agreements, but only two of those besides USMCA have been multilateral agreements. One of the two, the agreement with the European Union (the Comprehensive Economic and Trade Agreement, or CETA) was only signed last year. Businesses may be less familiar with the benefits of multilateral agreements. Thinking of the CPTPP as similar to the many smaller bilateral agreements Canada already has is a mistake.

As a multilateral agreement, the CPTPP gives businesses:

ONE SET OF RULES FOR 11 MARKETS

The CPTPP involves more than gaining preferential access to Japan. It is a collection of 11 markets with close to 500 million mostly middle-class consumers. Like USMCA or CETA, one set of rules and paperwork grants access to the entire collection of markets, which will grow even larger as new countries join.

AN EASIER TIME USING THE ONE SET OF RULES

Not only is there one set of rules and paperwork, but these rules are easier to use and more forceful than those in other agreements. The CPTPP standardizes and creates consistency including allowing firms to self-certify and obtain advance rulings to prevent delays once goods arrive in market.

A BETTER SALES PITCH THAN U.S. FIRMS

Not only can firms sell goods more cheaply to other businesses in CPTPP countries thanks to lower tariffs, those goods can be used as inputs to make products that customers can sell in any other CPTPP country.

A HUGE NEW POOL OF POTENTIAL SME PARTNERS

Especially for SMEs, a market this large creates natural incentives for partnership with firms in SME strongholds like New Zealand and Australia that have experience and networks in CPTPP markets. For these firms, partnering is an easier path to augmenting production to serve larger markets and clients and potentially providing year-round production or providing service across time zones.

A COMPETITIVE ADVANTAGE AT HOME: FIRMS DO NOT HAVE TO EXPORT TO BENEFIT

The 10 other economies in the CPTPP, from Japan to Vietnam to Peru, produce a wide range of inputs, mainly produced jointly with other CPTPP members. Canadian firms can use inputs from one CPTPP country, or a combination of countries, to lower input or product costs and become more competitive in Canada, including against U.S. firms in the Canadian market or across the border. Even though import duties in Canada are generally low, there are a range of products from shrimp paste to personal hygiene items to motors for electric vehicles to household appliances that will see significant tariff reductions on entering Canada when the CPTPP comes into force.

A LEG UP OVER INTERNATIONAL COMPETITORS

American and European competitors have none of the benefits the CPTPP offers in Asia-Pacific markets. For businesses worried about competition at home or thinking about entering foreign markets, the CPTPP will put them a step ahead.

CPTPP MARKETS

CANADA

GDP/per capita (USD)
$52,158

Population (millions)
36.29

Rank (ease of doing business)
#18

MEXICO

GDP/per capita (USD)
$8,201

Population (millions)
127.5

Rank (ease of doing business)
#49

Notable tariff drop
N/A, Canada has existing bilateral

Significant market for:
Exporters of canola, wheat, metals and minerals and commercial services.

Importers of autos, electronic and electrical machinery and equipment.

COLOMBIA*

GDP/per capita (USD)
$5,806

Population (millions)
48.65

Rank (ease of doing business)
#59

Notable tariff drop
N/A, Canada has existing bilateral

Significant market for:
Exporters of vegetable products and chemicals.

Importers of minerals and vegetable products.

PERU

GDP/per capita (USD)
$6,046

Population (millions)
31.77

Rank (ease of doing business)
#58

Notable tariff drop
N/A, Canada has existing bilateral

Significant market for:
Exporters of wheat, pulses, industrial machinery, chemicals and plastics.

Importers of metals, gold, fruit, coffee, fish and seafood, textiles and apparel.

CHILE

GDP/per capita (USD)
$13,793

Population (millions)
17.91

Rank (ease of doing business)
#55

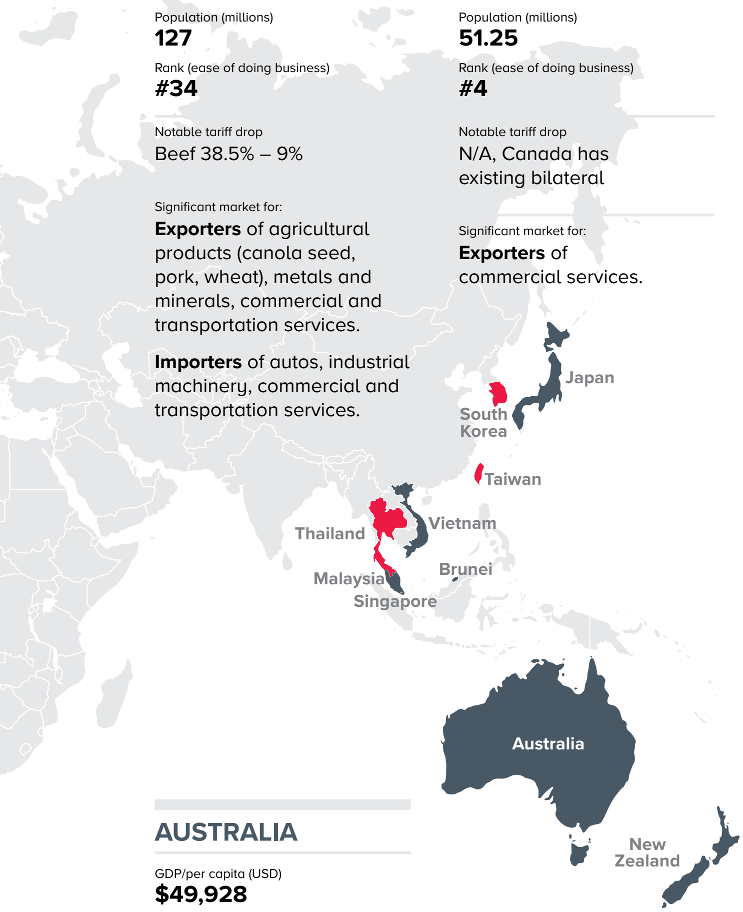
Notable tariff drop
N/A, Canada has existing bilateral

Significant market for:
Exporters of agricultural products (fats, oils, wheat), industrial machinery, commercial services.

Importers of metal and minerals, fruit, transportation and government services

* Countries that have announced that they plan to apply to join the CPTPP

Source: World Bank, Ease of Doing Business Index 2018; World Bank (GDP and population figures); Global Affairs Canada; WTO Tariff Download Facility; Asia Pacific Foundation of Canada



JAPAN

GDP/per capita (USD)
$38,894

Population (millions)
127

Rank (ease of doing business)
#34

Notable tariff drop
Beef 38.5% – 9%

Significant market for:
Exporters of agricultural products (canola seed, pork, wheat), metals and minerals, commercial and transportation services.

Importers of autos, industrial machinery, commercial and transportation services.

AUSTRALIA

GDP/per capita (USD)
$49,928

Population (millions)
24.13

Rank (ease of doing business)
#14

Notable tariff drop
Plastics 10% to 0% (over 4 years)

Significant market for:
Exporters of machinery, agricultural products (frozen pork, chocolate), travel and commercial services.

Importers of agricultural products, chemicals and plastics, travel and commercial services

SOUTH KOREA*

GDP/per capita (USD)
$27,539

Population (millions)
51.25

Rank (ease of doing business)
#4

Notable tariff drop
N/A, Canada has existing bilateral

Significant market for:
Exporters of commercial services.

NEW ZEALAND

GDP/per capita (USD)
$39,427

Population (millions)
4.69

Rank (ease of doing business)
#1

Notable tariff drop
Plywood and veneer panels 50% to 0% (over 7 years)

Significant market for:
Exporters of forestry products, agriculture products (frozen pork, pet food, condiments), industrial machinery.

Importers of agricultural products (wine, frozen sheep meat), industrial machinery, electronic and electrical machinery and equipment.

THAILAND*

GDP/per capita (USD)
$5,908

Population (millions)
68.86

Rank (ease of doing business)
#26

Notable tariff drop
Cereals (rye, barley, oats, grain sorghum) 27%

Significant market for:
Exporters of cereals, fertilizers, woodpulp/paper.

Importers of electrical machinery and equipment, mechanical appliances and prepared foods.

MALAYSIA

GDP/per capita (USD)
$9,503

Population (millions)
31.19

Rank (ease of doing business)
#24

Notable tariff drop
Metals, minerals, chemicals, plastics 50% to 0% (over 10 years)

Significant market for:
Exporters of agricultural products (soybeans, wheat), fertilizers, electronic and electrical machinery and equipment.

Importers of electrical and electronic machinery and equipment, industrial products, agriculture (fats, oils and cocoa).

SINGAPORE

GDP/per capita (USD)
$52,961

Population (millions)
5.61

Rank (ease of doing business)
#2

Significant market for:
Exporters of aerospace, industrial machinery, commercial services.

Importers of electrical and electronic machinery and equipment, medical goods and pharmaceuticals, transportation and government services.

VIETNAM

GDP/per capita (USD)
$2,186

Population (millions)
92.7

Rank (ease of doing business)
#68

Notable tariff drop
Lobster 34% to 0% (over 3 years)

Significant market for:
Exporters of agricultural products (wheat, flax, pork), fish and seafood (frozen lobster, crab, halibut), metals and minerals, fertilizers.

Importers of electrical and electronic machinery and equipment, textiles and apparel, footwear.

BRUNEI

GDP/per capita (USD)
$26,939

Population (millions)
0.42

Rank (ease of doing business)
#56

Notable tariff drop
Lumber and oriented strand board 20% to 0%

Significant market for:
Exporters of aerospace and industrial machinery.

Importers of chemicals and plastics.

TAIWAN*

GDP/per capita (USD)
$22,561

Population (millions)
23.55

Rank (ease of doing business)
#15

Notable tariff drop
12.5 – 40.8% meat and edible meat offal

Significant market for:
Exporters of mineral fuels and oils, ores/slag/ash and meat products.

Importers of electrical machinery and equipment, machinal appliances and iron/steel.

CASE STUDIES

The following examples of fictional companies have been created by piecing together interviews with real companies and combining insights to show how Canadian SMEs can benefit from the CPTPP.

At the end of each example are steps a company can take to either pursue the opportunity or get more information.

A NOTE ON FINDING HELP

Canadian SMEs are blessed and cursed by having a range of export assistance resources at the local, provincial and federal level. The large array of choices with confusing acronyms and overlapping mandates can be a challenge. At the end of each case study are short examples of how some of the various agencies can help. This is not an exhaustive inventory of what each agency does. Rather, it is designed to provide a general idea of the types of help available.

If it is still unclear whom to contact, there is a list of agencies at the end of the guide; pick up the phone and call whichever agency seems most appropriate and ask for help to figure out if they are indeed the correct agency; if not, ask them to put you in touch with the correct agency. Also, remember that governments from CPTPP countries have their own trade personnel stationed in Canada at their embassies in Ottawa and Consulates General in Vancouver and this may be a good source of assistance.

Some of the case studies include examples of how firms use assistance from federal, provincial and foreign agencies.

CASE STUDY 01

The Window Manufacturer

A WINDOW OF OPPORTUNITY: FINDING TARIFF REDUCTION ADVANTAGES IN ASIA

→ The company
A mid-sized firm in Saskatchewan manufactures windows and doors. Sales are primarily in Western Canada, with about 30% of products shipped to customers in the U.S. and Mexico.

→ The product
Windows, window frames, doors and door frames made from various materials including wood, plastic, aluminum and steel. Includes specialty products like French windows.

Even with the conclusion of negotiations for a new North American trade agreement, the company remains concerned about ongoing instability in the U.S.-Canada trade relationship and unilateral trade actions by U.S. President Donald Trump that could target its products or make trade with the U.S. more difficult. The company realizes that the CPTPP may make trade beyond the U.S. easier than before. Of all regions, Asia-Pacific countries have the largest spending in the construction sector, and the second highest long-term residential construction growth in the world.[3] The company is interested in seeing whether tariff reductions in the CPTPP will make it less expensive to enter some markets in the Asia-Pacific.

The company looks at the tariff schedules for the CPTPP countries, searching the HS codes of its top-selling products.[4] The results of its search are in Figures 2 and 3 (page 8 and 9).

The company discovers that the largest tariff reductions on its products will occur in Malaysia and Vietnam. It decides to focus additional market research on those two markets. Using provisions in Chapter 12, Temporary Entry of Business Persons, it knows that it will not have difficulties sending salespeople, and more importantly, technicians to service products and train or even work with local installers for up to six months.[5]

Note: Although there is much more to the CPTPP than tariff reductions, it is still an important element of the agreement for some firms, as is illustrated in our case studies.

The company also sees that it will continue to have a tariff advantage in Mexico over the next decade, compared to other CPTPP countries that do not already have a trade agreement with Mexico.[6] Since Canadian firms enjoy zero tariffs on all the above products through NAFTA/USMCA, the existing tariff rate of zero will continue to apply when the CPTPP is implemented. CPTPP countries, like Australia, will be subject to a declining tariff rate for five to 10 years until they reach a zero tariff rate. In the fourth year of the CPTPP being implemented, for example, Australian exporters of French windows to Mexico will still be paying a 9% tariff, while Canadian exporters will be paying zero. The company decides that it needs to accelerate its Mexican expansion plans to lock in the market now.

Tariff Reduction Schedule Scenarios

Below are three illustrative tariff reduction schedule scenarios possible under the CPTPP:

Scenario 01: Tariffs at 0%, remain at 0%

e.g. **SINGAPORE**

Product	Tariff Reduction Schedule
Plastic doors	0%-0%
Windows	0%-0%
Iron doors	0%-0%
Aluminium doors	0%-0%
Hinges	0%-0%

Scenario 02: Current tariffs immediately reduce to 0%

e.g. **NEW ZEALAND**

Product	Tariff Reduction Schedule
Plastic doors	5%-0%
Windows	5%-0%
Iron doors	5%-0%
Aluminium doors	5%-0%
Hinges	5%-0%

Scenario 03: Current tariffs reduce to 0% over a number of years

e.g. **VIETNAM**

Product	Tariff Reduction Schedule
Plastic doors	27%-0% (over 4 years)
Windows	5%-0% (entry into force)
Iron doors	10%-0% (entry into force)
Aluminium doors	15%-0% (entry into force)
Hinges	20%-0% (over 4 years)

Source: CPTPP tariff schedules; Canada Tariff Finder

Imports

The company also looks at Canada's CPTPP tariff schedule:

FIGURE 2: CANADA'S CPTPP TARIFF REDUCTIONS ON SELECT WINDOW & DOOR PRODUCTS IMPORTED TO CANADA

Product	HS code	Canada current tariff	Canada CPTPP tariff
Plastic doors, windows and frames	392520	6.50%	0% on EIF*
Wood windows, french windows and frames	441810	6%	0% on EIF
Iron and steel doors, windows and frames	730830	0%	0%
Aluminium doors, windows and their frames	761010	6.50%	0% on EIF
Hinges, of base metal	830210	0%	0%

Source: CPTPP Annex 2-D: Canada Tariff Schedule

* Entry into force

The company notices that for three of its top selling products, Canada's tariffs of 6% to 6.5% will immediately fall to zero when the CPTPP comes into force, meaning firms in CPTPP countries will be able to sell these products into Canada without paying tariffs. The company realizes it may be facing new competition at home.

Imports (Supplies)

The company examines Canada's tariff reductions to see if tariffs will be lowered on some of the supplies it imports:

FIGURE 3: CANADA'S CPTPP TARIFF REDUCTIONS ON OTHER TYPES OF IMPORTS

Product	HS Code	Canada current tariff	Canada CPTPP tariff
Polyesters paints and varnishes	3208.10.00	6.5%	0% on EIF
Glues or adhesives	3506.10.00	6.5%	0% on EIF
Coach and other wood screws	7318.11.00 and 7318.12.00	8%	0% on EIF
Curtains	6303	17% – 18%	0% on EIF
Bamboo screens	4601.21.00	3%	0% on EIF

Source: CPTPP Annex 2-D: Canada Tariff Schedule

The company notices it can save 6.5% of tariffs when buying paints and glues or adhesives from CPTPP countries, rather than its current supplier in China. If the company switches to buying screws from CPTPP countries, it can save up to 8% of tariffs when importing into CPTPP countries.

The company can even consider selling more products that are related to its existing business such as curtains and bamboo screens. Under the CPTPP, the company can save up to 18% of tariffs when importing curtains from CPTPP countries and 3% when buying bamboo screens from CPTPP countries.

Next steps

These are not exhaustive – but asking questions is the first step. If this case study was of interest to you, here are some steps you can take:

→ A company can look up the HS codes of its products in the tariff schedules for each CPTPP country, or ask your customs broker to do so. This will give an understanding of whether there are tariff reductions may want to take advantage of in CPTPP markets, and how significant they are.

→ Companies can also contact their provincial trade ministry or agency to see if they have market research information on the CPTPP markets they are interested in. For example, companies in Saskatchewan can contact Saskatchewan Trade and Export Partnership (STEP), a membership-based service with offices in Regina and Saskatoon that provides a suite of export services including customized market intelligence reports (such as for windows and doors in the Mexican market), guidance on opportunities in the market, and access to assistance for in-market missions (Market Access Program).

CASE STUDY

02

The Candle-making Firm

A LIGHT AT THE END OF THE TUNNEL: EXPANDING FROM TOURIST CUSTOMERS AT HOME TO ASIAN CONSUMERS ABROAD

→ **The company**

A family-owned and operated candle-making company in Edmonton, Alta., has a small storefront as well as a much larger business selling product through its website to high-end tourist outlets for re-sale and directly to consumers. It has heard anecdotally from stores selling its products that the candles do particularly well with Asian tourists.

→ **The product**

Western and mountain themed candles for tourist market.

The company realizes the CPTPP gives it an opportunity to sell to a larger market of Asian consumers in Asia rather than only selling to those who travel to Western Canada and the U.S. The company is also interested in if the CPTPP is better than USMCA to help it expand its business in Mexico, another CPTPP country and a country that sends a lot of tourists to Canada.

Tariff reductions

Tariffs on candles will fall when the CPTPP is implemented. Vietnam will decrease its 24% tariff to zero within four years, and Malaysia's 15% tariff will be zero within six years. Australia, a market that the firm had not considered at first but one that makes sense given tourism and work exchange numbers, will see tariffs on candles fall from 5% to zero. Each of these tariff reductions allow the candle company to become more competitive in these markets compared to firms in non-CPTPP countries, especially its American competitors. Japan, perhaps the largest Asian market for the company's products already, has a 0% candle tariff, but CPTPP advantages for the company in Japan lie outside of tariffs in things like rules of origin.

Rules of origin

Once the company meets the criteria for making its product – candles – inside the CPTPP, they can be shipped to all other 10 CPTPP markets without any changes in manufacturing. It can also add in or "cumulate" content from across all CPTPP countries to count towards origin. For example, the company could import a wider variety of and cheaper inputs to Canada, such as citrus from Vietnam, lavender from Mexico and wax derived from chemicals in Singapore and still meet the CPTPP rules of origin criteria, since those three countries are all CPTPP members.

Distribution options

The CPTPP will offer the company a wider range of distribution partner options that are all under the same set of trade rules. For example, the company could ship all its CPTPP market-bound candles to a distributor in Singapore, which would take on shipping and logistics headaches like guaranteeing cold storage. The Canadian candles are more attractive for a Singaporean distributor than candles from the U.S., because it can ship them to customers in any CPTPP country without additional paper work and, without tariffs, at a lower cost.

Access to services
The CPTPP will make it easier for the company to easily access key services that might be needed to sell candles in other CPTPP countries. Marketing, distribution and retail are all critical to the success of a product. This includes things like online distribution of advertising and, potentially, the use of e-commerce channels. The CPTPP protects and expands access for firms in services, investment, and e-commerce.

Intellectual property protection
To be successful, the company pays a lot of attention to protecting its intellectual property investment in its candles – its branding, packaging, and even the scents it uses. The CPTPP protects IP investments and provides for enhanced enforcement to stop counterfeit products appearing in the marketplace.

The company decides to take a fresh look at its operations and growth strategy. Markets that were not attractive before because the tariffs were too high, freight was too costly, border delays were inevitable, or retail investments were not possible, suddenly look much more attractive because of the CPTPP.

Next steps
These are not exhaustive – but asking questions is the first step. If this case study was of interest to you, here are some steps you can take:

→ Contact your customs broker to discuss which elements of the CPTPP agreement your business is well-suited to take advantage of.

→ A company in Manitoba, like the candle company, that sees extensive opportunities on multiple fronts can contact the World Trade Centre Winnipeg. WTC Winnipeg is one of several Canadian WTC organizations and groups like the Edmonton Chamber of Commerce that have an intensive export plan boot camp for SMEs, Canada's Trade Accelerator Program (TAP Canada). The program provides training, guidance and mentorship with industry experts to develop a detailed export plan that would cover all aspects of this case study including things like setting up foreign distribution agreements and taking advantage of cumulation in the CPTPP. A company can contact WTC Winnipeg to set up an appointment to better understand the program and to determine if it is a good fit.

ASIAN TRADE CENTRE

The Asian Trade Centre has other case studies and material for SMEs on its website.
http://www.asiantradecentre.org/tpp/

Source: Asian Trade Centre, "Ten Benefits of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)," https://static1.squarespace.com/static/5393d501e4b0643446abd228/t/5aa0ec4ae2c4830bd80781c0/1520495719293/CPTPP+10+Benefits.pdf, p.11.

CASE STUDY

03

The Outdoor Gear Company

SEWING UP SALES: FINDING BRAND-CONSCIOUS CUSTOMERS IN ASIA

→ **The company**
An outdoor gear design and manufacturer of athleisure wear firm located in Vancouver, B.C.

→ **The product**
High-end technical outdoor clothing made in Vancouver that has crossed over to become a fashion commodity.

B.C. is home to North America's fourth-largest apparel sector, with 600 businesses that ship $3 billion in goods to over 50 countries. The company has seen its strongest growth in the Asia-Pacific region as sales in North America have remained sluggish. It thinks the CPTPP has the potential to give it a leg up on some of its U.S. competitors; demand in the Asia-Pacific markets for high-end technical gear as a status symbol is growing for aspirational higher-income consumers.

Easier trade facilitation rules

Considering that imports of yarn already enter Canada duty free, tariff elimination is not an advantage for this company. But, on the other hand, a major shortcoming for apparel, like many other sectors in other trade agreements, has been the unpredictability of customs decisions on classifying goods and where inputs like yarns, combinations of fabrics and materials change every season. The CPTPP removes many of these worries and provides greater certainty for the company, as it does for firms in all 11 CPTPP markets, through provisions on self-certification and advance rulings.

CPTPP rules allow *self-certification,* which means shipments can be made without a specific piece of documentation called a certificate of origin. The company can also get customs officials to classify its product using something called an *"advance ruling"* that will last up to three calendar years so the company can be certain that the clothing will be classified as such and not as a product called "other" and subjected to higher tariffs or different rules of origin at the border, or be stuck at the border waiting for customs officials to figure out how to classify their product. The chapter limits the reasons for not issuing an advance ruling to circumstances such as the requested information or samples are not provided or there is ongoing judicial action. These trade facilitation rules will be especially important for the firm if it wants to set up a single distribution centre in a CPTPP country in Asia.

Express shipments

The company is also a major user of express shipments – if a line of clothing is suddenly popular due to social media or it needs to move products for promotional and other events with short lead times. Chapter 5, Article 5.7 *requires* each CPTPP member to have expedited customs procedures for express shipments. This includes allowing a single submission for all goods contained in an express shipment, ensuring the information can be submitted and processed before the shipment arrives, and, under normal circumstances, providing for express shipments to be released within six hours of submitting customs documentation. This will make it easier and faster for the company to make express shipments to customers in other CPTPP markets.

Online consumer protection
The company is also looking to expand its online and e-commerce operations – platforms that are increasingly critical to the sector both in mature markets like Australia and Japan but also in developing markets in Asia. The firm knows that in China online sales are expected to account for 31% of all specialty apparel sales by 2020 and expects a similar rise in demand in other markets in Asia.[7]

The CPTPP contains chapters on Online Consumer Protection, Personal Information Protection and Paperless Trading, which include provisions to make trade administration documents submitted electronically the legal equivalent of the paper documents. Combined, these measures will give a boost to the company's e-commerce plans.

Trademarks
The CPTPP's chapter on Intellectual Property contains a five-page section devoted solely to trademarks, a critical protection for a company where brand and image are paramount. The section on "Well-Known Trademarks" includes language preventing a state from requiring that the trademark has been registered in that state, included on a list of well-known trademarks, or given prior recognition as a well-known trademark for it to be protected. The section also requires action to make registration and challenge of trademarks and their improper use easier.

In looking at the CPTPP, the company finds that while tariffs are not an important consideration for its niche and value-added products targeted to aspirational millennials in the Asia-Pacific, there are other measure in the agreement that will help it expand its sales into CPTPP markets.

Next steps
These are not exhaustive – but asking questions is the first step. If this case study was of interest to you, here are some steps you can take:

→ A company can contact the Trade Commissioner Service to receive information on popular e-commerce platforms in their target markets, traditional distribution channels and upcoming industry trade shows. They may also wish to download the TCS' Spotlight on E-Commerce guide.

For an in-depth look at how working with the Canadian Trade Commissioner Service at Global Affairs Canada can help realize the opportunity in the Asia-Pacific market, see page 21.

CASE STUDY

04

The Plant Ingredient Processor

THE ETERNAL HARVEST: MULTI-MARKET SUPPLY CHAIN

→ **The company**
A plant ingredient processing company with operations throughout the Prairie provinces.

→ **The product**
Pea protein, used as a high-value, specialty food ingredient in products like granola, energy bars and high-protein pasta. It can be a key ingredient for gluten-free, vegan and paleo baked goods; for example, it can be used as a flour substitute that keeps muffins moist, makes pancakes fluffy and adds bulk to baked goods such as brownies.

The company has done well selling its pea protein powder to niche health stores and bakeries in both Canada and the U.S. But to grow its operations, it needs to find additional customers in overseas markets beyond the U.S. The company decides to evaluate changing its suppliers to determine if it can take advantage of the trade agreement to gain new customers in CPTPP markets.

Tariff reductions

First, the company looks in the tariff schedule for each CPTPP country to see how its pea protein (HS code 3504) will benefit from tariff reductions in CPTPP markets. It discovers just three CPTPP markets currently have tariffs on this HS code. Chile's 6% tariff and Japan's 2.9% tariff will both be eliminated when the CPTPP comes into force. Vietnam's 4% tariff will be reduced annually until it is zero in the fourth year of the agreement being in force. Tariff reductions are not the most important aspect of the CPTPP for the company.

Rules of origin

Because the CPTPP contains a single set of rules of origin, the same rules are applied to products from any member country. The agreement allows for full cumulation – origin rules are not based only on where goods originate from, but also consider how much transformation (processing/manufacturing) the product undergoes within the bloc of member countries.[8] Rather than spend time, money and effort looking for customers in multiple CPTPP markets, the company will benefit as much from the agreement by finding a single large customer in a CPTPP market to buy its pea protein ingredient to use in food products. This company can then sell those food products to its own customers in other CPTPP markets.

Transit and transshipment

CPTPP rules allow for products to maintain CPTPP rules of origin status even if they are shipped through a non-CPTPP country, as long as the products are only "loaded; unloaded; separated from a bulk shipment; stored; labelled or marked as necessary by the importing Party; or given whatever operation may be necessary to preserve the product in good condition, or to transport the good into the territory of the importing Party; and stay under the control of the customs administration in the non-[CP]TPP country."[9] In other words, if the firm finds a customer in Mexico that wants to buy the pea protein ingredient for use in food products that will be sold into other CPTPP markets, the pea protein can be shipped to the

customer in Mexico via the U.S. and still be ruled as originating in a CPTPP market (Canada).

Customs and trade facilitation

The CPTPP contains processes and procedures for moving goods among the member countries that will speed up movement and reduce costs at the borders.

While this firm is hoping to secure one large buyer within the CPTPP, the customs rules make it easy to sell to any CPTPP country without additional paperwork, if other customers in the CPTPP are found in the future. Once its pea protein product has a certificate of origin showing it originates in the CPTPP, the firm can ship the product to any CPTPP country without having to file origin paperwork for each individual country it is exporting the product to, saving time and resources.

Except under certain circumstances,[10] exporters can self-certify that the product they are exporting meets the CPTPP rules of origin. There is no need for the firm to go through third-party certification of origin. Other CPTPP countries will not be allowed to reject the firm's certification of origin because of minor errors or discrepancies.[11] Being able to self-certify will save the firm time and money.

Under CPTPP rules, the firm (exporter) or its customer in Mexico (importer) can request that the Mexican customs agency provide a written advance ruling on the tariff classification of the product, the application of customs valuation criteria, whether the good is originating in accordance with the CPTPP Rules of Origin and Origin Procedures (Chapter 3 of the agreement) and other matters as requested. The customs agency must provide its advance ruling no later than 150 days after it receives a request. The customs ruling remains in effect for one calendar year. The ability to obtain an advance ruling before shipping its pea protein reduces the firm's uncertainty over how its product will be treated by Mexican customs officials when it reaches the border. It will also eliminate costly delays that can occur when a product reaches the border and there is confusion over its proper classification or valuation.

The firm decides that there are enough measures it can take advantage of in the CPTPP to make spending time and resources on finding a large customer for its pea protein in the CPTPP worthwhile.

Next steps

These are not exhaustive – but asking questions is the first step. If this case study was of interest to you, here are some steps you can take:

→ An Alberta firm looking to follow this example could first contact the provincial government in Edmonton, in this case the Americas Branch in the Trade and Investment Division of the Alberta Ministry of Economic Development and Trade. The division also has sections covering other regions of the globe. Staff can bring in other support services available in Alberta such as (in this example) the officer responsible for trade with Mexico in the Alberta Ministry of Agriculture and Forestry, the Alberta trade representative stationed abroad if there is one, the officer at the Mexican Government's trade office in Vancouver who looks after business with Alberta, or other experts.

CASE STUDY

05

The Water Turbine Manufacturer

MAKING A SPLASH: SHIFTING SUPPLY CHAINS OUT OF THE U.S. AND INTO MULTIPLE CPTPP MARKETS

→ **The company**
An Alberta specialty manufacturer of water turbines that provides installation and servicing looks to add Mexican steel content to its production in order to access CPTPP markets while maintaining duty free access to the U.S.

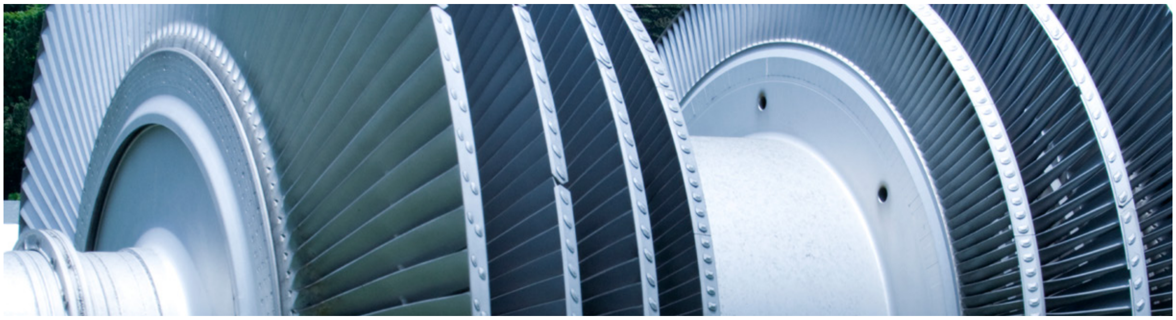
→ **The product**
Water turbines and equipment installation and servicing.

The company makes small specialty water turbines and is primarily focused on the Canadian and U.S. markets for its products and services. The company has had limited, and negative experience, selling in Latin America and Africa due to products being delayed at customs and difficulties moving staff to sell and install its specialty equipment. The company has relied on U.S. producers of specialty steel for its products since the company was founded. This served the company well since most of its sales were to the U.S.

At the time of the signing of the Canada-Korea Free Trade Agreement (CKFTA), the company had been approached by a Korean trade official stationed in Canada on using Korean steel for its products. But the company quickly figured that this would subject its products to a U.S. tariff of close to 4%. The company has had a few sales into Mexico, piggybacking off sales in the southwest U.S. There has been strong demand for the firm's products in Asia including Vietnam, Australia and Japan but the company's trouble in exporting to Latin America and Africa had chilled its appetite for risking the time and effort to try and enter these markets.

Australia is the only potential CPTPP market that imposes tariffs on the company's products (5%), and these will fall to zero once the CPTPP enters into force. For the other countries, ability to ensure that products will be able to clear customs and service staff will be able to clear immigration, is the main draw. The company has also been experiencing increasing difficulty with getting its service technicians into the U.S. especially for emergency repairs and servicing and has heard that this will not be an issue with the CPTPP.

The problem the company faces is the high content of U.S. steel in its products, which will prevent them from entering CPTPP markets and benefiting from the agreement.



Rules of origin
Because the firm has previously sold in Mexico, it knows anecdotally that Mexican companies produce similar inputs to U.S. firms that produce competing products. The company contacts the ProMéxico trade representative in Vancouver, the point of contact for Western Canada, and asks for help locating potential suppliers in Mexico. The office identifies a list of companies that meet the product specification and also sell to U.S. customers. On this list, the company finds suppliers with staff that are used to working with U.S. companies and have no trouble communicating, working with and meeting the expectations of a Canadian firm. The firm checks in with the Alberta office in the Canadian emabassy in Mexico City when it visits the country, for additional guidance and support.

Keeping access to U.S. market
The company is able to add a production run of its products using Mexican steel and self-certify that it has done so and now meets CPTPP content and rules of origin requirements. The use of Mexican steel does not prevent it from continuing to sell in the U.S. market. Tariff savings in Australia give the company a price edge over American firms in that market.

Movement of people
But the big advantage that the company finds is its ability to promise prompt servicing and emergency response. The company also envisions eventually using the labour movement provisions of the CPTPP to rotate personnel into an office in a CPTPP country to service its clients more quickly; it could also bring technicians from CPTPP countries to Canada for extended training and infield experience working on actual service calls and on the production line.

Next steps
These are not exhaustive – but asking questions is the first step. If this case study was of interest to you, here are some steps you can take:

→ A company can contact the office of ProMéxico (http://www.promexico.mx/), in Vancouver (vancouver@promexico.gob.mx). ProMéxico is the Mexican equivalent of the Canadian government's Trade Commissioner Service. The office may be able to help find suppliers of some inputs; in this case, plain steel or steel castings that will meet both CPTPP and U.S. content and rules of origin requirements. After filling out a simple questionnaire with the technical specs of the required products, a company is given a list of potential suppliers from which to choose and assistance in contacting the company if needed. Most CPTPP countries have offices like ProMexico in their Consulates General in Vancouver and certainly in their embassies in Ottawa. A list of CPTPP countries with Consulates General in Vancouver and Calgary are in the back of this guide.

CASE STUDY 06

The First Nation Commercial Fishing Firm

CASTING A WIDER NET: OPENING DOORS WITH A KIWI CONNECTION

→ **The company**
A new First Nations commercial fishing operation in B.C.

→ **The product**
High quality, sustainable fresh and frozen fish and seafood.

In 2017, companies in B.C. exported $110 million in seafood to Japan. Under the CPTPP, Japan's tariffs on most seafood will drop significantly, for example, smoked salmon from 10.5% to zero immediately.

A recently formed First Nations commercial fishing operation in B.C. has been thinking about accessing Asian markets to jumpstart growth. While the company has product, it is overwhelmed by the challenge of going alone to Asia to develop this opportunity. The company also wants to maintain control of its brand and product and avoid the non-diffentiated bulk fish re-seller route.

A chance meeting with the New Zealand Trade and Enterprise representative at the Consulate General in Vancouver (NZTE) leads to the company being put in touch with a Māori fishing company that has similar values and is selling in Asia. The New Zealand company is looking for additional sources of product to take advantage of the elimination of tariffs on fish in Japan. The two businesses decide to enter into a commercial partnership.

The key CPTPP factors that enable this partnership include:

Ease of Entry: A major impediment for firms entering new markets, especially in Asia, is the amount of time and expense to learn about the market, make connections, understand the rules and find reputable suppliers and distributors. One great advantage of the CPTPP is that it opens the door to partnering with SMEs from other CPTPP countries, say New Zealand, that are already in other CPTPP countries, say Malaysia, and are looking for new supply and partners to take advantage of opportunities in CPTPP markets. Partnering with a firm already in a CPTPP country can substantially cut, if not entirely eliminate, some of the usual entry hurdles.

Under Chapter 24 of the CPTPP, both Canada and New Zealand have agreed to help their SMEs to take advantage of the CPTPP and they have further agreed to exchange information and work together. As a result, both governments were receptive and proactive in responding to requests from the companies for assistance including facilitation of the partnership.

Rules of origin: Fish from New Zealand are the same as fish from Canada for tariff and other considerations. Suppliers in Canada and New Zealand now have preferential access to Japan under the CPTPP. Companies that are already in the Japanese market can look to expand their offerings to existing customers through arrangements with fish suppliers in other CPTPP countries, who may have more difficult to source niche products, but do not have connections in the Japanese market.

With 10 other countries in the CPTPP, finding a partner who has supply that you do not have or access that you do not have will become easier. The wide range of potential sources allows both companies to assure large buyers in CPTPP countries that the companies can meet production requirements and offer assurances that problems in one hemisphere or one part of the ocean will not stop product from arriving. Since everyone is operating under the same rules for phytosanitary and other requirements the transition from one source to another is seamless without the headaches of the two sets of paper work that would exist if there were separate bilateral New Zealand – Japan and Canada – Japan trade agreements.

Movement of people: The companies want to share fishing expertise and also conduct joint sales operations. This necessitates moving staff between New Zealand and Canada and to travel together to Asia for sales calls. Under Chapter 12 of the CPTPP, members have agreed to expedite entry for certain classes of business visitors and to waive work visas for temporary performance of service, maintenance, sales and similar activities.

The CPTPP provides general rules for facilitating entry of business people, such as assuring that applications for a visa or permit are handled "as expeditiously as possible after receipt of a completed application;"[12] that processing fees are reasonable so they do not unduly impair or delay the trade of goods or services or investment activities; and that documents and processing times are published online if possible. Alongside the general rules, this chapter has numerous exceptions and country-by-country carve outs.[13] The companies need help from their respective trade promotion agencies to figure this out. For Japan, both Canada and New Zealand have equal access, 90 days for sales calls, so the idea of joint sales missions makes sense.

Next steps

These are not exhaustive – but asking questions is the first step. If this case study was of interest to you, here are some steps you can take:

→ Contact the Canadian Trade Commissioner Service office in Calgary.

→ For a company that knows which countries would be the best source for potential partners, contacting that country's consulate general or trade office in Canada is a good start. Consuls and Honorary Consuls are staffed by Canadian volunteers. But a full Consulate General staffed with professional diplomats and trade officials can offer more help. Seven CPTPP countries have such Consulate Generals in B.C.: Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Vietnam. Calgary has two, Mexico and Japan, but the Consulate General in Vancouver is still a better first stop. No CPTPP countries have Consulate Generals in Saskatchewan and Manitoba. Companies in Saskatchewan should try Vancouver and companies in Manitoba should try Toronto. Companies can always contact the embassy in Ottawa.

Endnotes

1 Global Affairs Canada, "Economic impact of Canada's participation in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership," February 16, 2018, http://international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/impact-repercussions.aspx?lang=eng.

2 Ibid.

3 HIS Economics, "Global Construction Outlook: Executive Outlook," https://ihsmarkit.com/pdf/IHS_Global_Construction_ExecSummary_Feb2014_140852110913052132.pdf, Q4 2013.

4 The CPTPP text, including the tariff schedules for each country, is available at https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-concluded-but-not-in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-text/.

5 CPTPP Annex 12-A, https://www.mfat.govt.nz/assets/Trans-Pacific-Partnership/Annexes/12-A.-Malaysia-Temporary-Entry-for-Business-Persons.pdf.

6 Of the CPTPP countries, Mexico has existing trade agreements with Canada, Chile and Peru.

7 Coresight Research, "Deep Dive: Outdoor Gear – A Growing Global market with Challenges for Brick and Mortar Stores," https://www.funglobalretailtech.com/research/deep-dive-outdoor-gear-growing-global-market-challenges-brick-mortar-stores/, accessed May 2018.

8 World Economic Forum, "Will the Trans-Pacific Partnership Agreement Reshape the Global Trade and Investment System? What's In and What's News: Issues and Options," July 2016, http://www3.weforum.org/docs/WEF_White_Paper_Whats_in_and_whats_new.pdf, p.8.

9 Asian Trade Centre, "Process Food Implications of the Trans-Pacific Partnership (TPP), 2017, https://static1.squarespace.com/static/5393d501e4b0643446abd228/t/5a654b50419202c75ad4ea70/1516587872377/TPP11+Implications+for+Processed+Food+final.pdf, p.18.

10 If the customs value of the goods do not exceed the equivalent of US$1,000 or the importing country has waived the requirement for an importer to present a certification of origin.

11 New Zealand Foreign Affairs and Trade, "Comprehensive and Progressive Agreement for Trans-Pacific Trade National Interest Analysis," February 2018, https://www.mfat.govt.nz/assets/CPTPP/Comprehensive-and-Progressive-Agreement-for-Trans-Pacific-Partnership-CPTPP-National-Interest-Analysis.pdf, p.92.

12 CPTPP Chapter 12 Temporary Entry for Business People, https://www.mfat.govt.nz/assets/Trans-Pacific-Partnership/Text/12.-Temporary-Entry-for-Business-Persons-Chapter.pdf, p. 2.

13 In Annex 12-A, each CPTPP member outlines the types of business persons that can enter their country and how long each can stay.

Working with a trade support agency

Trade Commissioner Service / Service des Délégués Commerciaux

Canada

Most small companies are going to need help going abroad. Pacific Rim is a small, very young beverage company that has already gotten into Asian markets. The story of how it succeeded, in advance of the CPTPP agreement, is a good illustration for how companies can work with trade support agencies to realize the opportunities showcased in this guide.

Pacific Rim Distributors knew there was demand for Canadian craft beer in Asia and the company was eager to line up distribution deals in key markets for the seven Canadian craft beer makers it represents. Canadian craft beer has proven to be popular throughout Asia-Pacific with growth at about 2% today from just 0.5% in 2016.

This is the type of opportunity that will open for many other small and medium businesses with the CPTPP.

To help realize the opportunity in the Asia-Pacific market, Pacific Rim turned to the *Canadian Trade Commissioner Service (TCS)* at Global Affairs Canada for help.

After meetings to describe the product and opportunity, TCS helped Pacific Rim book meetings with 18 distribution companies over three days in Singapore, after which it chose the Singaporean distribution company most highly recommended by the TCS. A TCS officer attended seven meetings with Pacific Rim in Taiwan to finalize a deal to have the largest convenience store chain in Taiwan, 7-Eleven, distribute its beer.

TCS has helped Pacific Rim Distributors place its product into nine other markets in Asia and three in Europe. Official government agencies like TCS are especially helpful in facilitating introductions with local contacts and bringing the credibility of government to the meeting.

Pacific Rim continues to use TCS services – market research and local intelligence, providing introductions, arranging meetings and giving advice – as it looks to enter Australia and Peru. The company also checks in with the TCS at least once every four months for additional help and advice.

For companies looking at opportunities in the CPTPP like those outlined in this guide, and see themselves at a similar point as Pacific Rim, TCS is a good first call.

Canadian Trade Commissioner Service
Vancouver Regional Office
Email: pacific-pacifique.tcs-sdc@international.gc.ca
Toll Free / Sans Frais: 1-888-306-9991
300 West Georgia Street, Suite 2000
Vancouver, BC V6B 6E1

Canadian Trade Commissioner Service
Calgary Regional Office
E-Mail: Prairies.TCS-SDC@international.gc.ca
Toll Free: 1-888-306-9991
Suite 418, East Tower, 220 4th Ave SE
Calgary, AB T2G 4X3

The Canadian Trade Commissioner Service also has offices in each CPTPP country. To find contact information for each office, visit:

http://tradecommissioner.gc.ca/office-bureau/international.aspx

Source: Global Affairs Canada, Trade Commissioner Service – CanadExport.

Other resources

Ten Benefits of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), *Asian Trade Centre*, March 2018.

The TPP11: The Global Implications for Business. Prepare Your Business: TPP11 is Coming, *Asian Trade Centre*, January 2018.

The Art of the Trade Deal: Quantifying the benefits of a TPP without the United States, Carlo Dade and Dan Ciuriak, *Canada West Foundation*, June 2017.

The TPP: The West wants in, Carlo Dade and Shafak Sajid, *Canada West Foundation*, June 2016.

The 'Just in Case' Plan: How western Canadian small businesses can prepare for the potential end of NAFTA, Carlo Dade and Naomi Christensen, *Canada West Foundation*, Feb. 2018.

TRADE ASSISTANCE RESOURCES

The Canadian Trade Commissioner Service has offices in each CPTPP country.

To find contact information for each office, visit: http://tradecommissioner.gc.ca/office-bureau/international.aspx

CPTPP Consulate Generals in western Canada

Vancouver
- Chile
- Japan
- Malaysia
- Mexico (ProMexico)
- New Zealand
- Vietnam

Calgary
- Mexico
- Japan

CANADA WEST FOUNDATION

NEW ZEALAND
FOREIGN AFFAIRS & TRADE

Trade Commissioner Service
Service des Délégués Commerciaux

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