

Customs and Global Trade Update

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TPP - THE WORLD'S LARGEST REGIONAL TRADE AGREEMENT NEGOTIATED

Negotiators have announced that an agreement has been reached regarding the terms of the Trans Pacific Partnership (TPP), a regional trade agreement potentially covering 40% of global GDP. However, from an Australian trade in goods perspective, the TPP outcomes will be nominal, and possibility negative for our exporters.

The TPP is made up of Australia, the US, Japan, New Zealand, Canada, Mexico, Vietnam, Peru, Chile, Singapore, Malaysia and Brunei. Australia already has free trade agreements with all of those countries except Canada, Mexico and Peru. So, while the TPP will cover a third of Australia's trade in goods and services, only 1.3% of that trade is not currently covered by at least one FTA.

TRADE IN GOODS

It is true that the TPP will open up trade with Canada, Mexico and Peru. However, Canada and Australia will never be major trading partners due to the similarities in our economies. Both have well developed services sectors and are major agricultural producers. While Mexico is a significant economy, it does not import high volumes of agricultural products or minerals. Its exports are predominately manufactured products and it is difficult to see Australia sourcing manufactured goods from Mexico over China, Japan and Korea.

Most of the new trade opportunities for Australia as a result of the TPP will come from improved access to the US and Japanese agricultural markets. The details have not been released, but it is hoped that access to the US sugar and Japanese beef, rice and dairy markets will be greater than what Australia has achieved under its existing FTAs with those countries.

A significant benefit of a large regional trade agreement is that trade preferences will apply to goods that originate from the TPP region, not merely a specific country. That is, a good finished in Australia could consist of components from the US, Japan, Malaysia and Australia and be given duty preferential treatment on export to any TPP country. This helps to facilitate Australia's involvement in global supply chains.

HOW COULD LIBERALISING TRADE IN GOODS BE NEGATIVE?

It is better for Australia to be part of the TPP than excluded from it. However, there may be some farmers who wish the agreement was not concluded. Prior to the TPP being implemented, Australian farmers have a significant competitive advantage over the US, New Zealand and Canada in respect of agricultural trade with Japan. Once the TPP is implemented, all TPP partners will be on a level playing field.

Similarly, Australia enjoys significant advantages over New Zealand and Japan when competing in the US market. Together with Singapore, Australia currently has the best market access out of all of the TPP participants that are developed countries. Once the TPP is implemented, much of that advantage will be lost.

OTHER OUTCOMES

More so than any other FTA, the TPP tackles much more than trade in goods. Its aims include liberalising trade in services, Government procurement and investment, and puts in place minimum standards regarding labours laws, environmental standards, competition laws and intellectual property.

Non-traditional trade topics such as intellectual property and rights of investors have been the cause of much opposition to the TPP.

WHAT'S NEXT

We now have an in-principle agreement. Over the coming weeks and months the parties will finalise the legal text and the agreement will have to go through the domestic treaty approval process of the various countries. The passage of the TPP in the US and Canada is by no means certain. Canada is only days away from its elections and the TPP does not have the support of all parties. Similarly, the US will soon be immersed in its election cycle and key democratic hopefuls have either distanced themselves from the TPP, or are directly opposed it.

In the usual course it can take 12 months to implement an FTA. Given the scope of the TPP and the political environment it will have to navigate, implementation in 2017 is most realistic.

During this time we will learn the exact details of the agreement, such as the actual trade commitments and the requirements that must be met to claim trade preferences.

WHAT TO DO NOW

Australian exporters have a window of 12-24 months to take advantage of their existing trade advantages over TPP rivals. Traders that can entrench themselves now in markets such as Japan and Malaysia will find they are better placed to resist the competition from TPP countries, such as the US and Canada, when all TPP countries are competing on a level playing field.

To discuss the TPP, the potential impacts on your business, and how you can prepare now for its implementation, please contact a member of our Customs and Global Trade team.

Please contact a member of our team if you would like to discuss any of the above issues.



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