

Intelligence MEMOS



From: Daniel Schwanen
To: François-Philippe Champagne, Minister of International Trade
Date: November 17, 2017
Re: **CANADA AND TPP-11: DON'T LET A TACTICAL RETREAT TURN INTO A STRATEGIC BLUNDER**

Canada was right last week to back away from immediately signing on to a revamped Trans-Pacific Partnership, bereft of its largest original signatory, the United States.

Certainly, it is important for Canadian businesses to gain better access to the markets of the seven remaining signatories with which Canada does not currently have a trade agreement. Chief among these is Japan, whose economy, accounting for 6 percent of world GDP, is bigger than that of all the other TPP-11 combined.

But Canada and Mexico are also involved in a major fight in the current NAFTA renegotiation, to preserve their mutually beneficial trade with the United States, which still accounts for the vast majority of their exports and imports. This fight centres on the automobile industry, for which the United States is proposing new rules around duty-free treatment within NAFTA.

Canada and Mexico are wise to wait for some kind of clarity on NAFTA before committing to the exact shape of auto trade liberalization in the TPP, now that US parts won't qualify as TPP content. In the CETA, our new trade deal with Europe, for example, Canada obtained duty-free quotas for cars assembled in Canada even if they contain US parts that would otherwise disqualify them for CETA rules of origin.

Like other TPP signatories meeting in Da Nang, Vietnam, last weekend, Canada also agreed to suspend the application of 20 or so clauses in the original TPP that were agreed upon in large part because the US wanted them. Most of these concerned intellectual property rights and investor-state dispute settlement, and others covering the treatment of express delivery services. Because each country envisages its own relationship with a US bent on bilateral agreements – and even entertains the faint hope that the US will eventually rejoin the TPP – it makes no sense to give up these potential bargaining chips in a TPP without the US.

But Canada has other demands concerning the TPP.

Having thrown down the gauntlet on “progressive” trade in NAFTA negotiations – including commitments on labour, gender and indigenous rights and environmental standards – Canada cannot exactly abandon this agenda. It may be difficult to push these values onto TPP countries beyond what they had originally agreed on labour and environment at the behest of the US, and Canada should be flexible here, realizing that there are other forums to make progress on these issues.

However, no doubt in a nod to Canada, the TPP has acquired the new name of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

This unwieldy name may, however, be symbolic of greater difficulties, down the road in reaching a final TPP agreement.

Minister, Canada should make it clear that it is ultimately committed to a deal that will at least restore the balance of mutual benefits that had been agreed in the initial TPP, and ideally enhance them. This balance was favourable to Canadian consumers and to the vast majority of Canadian producers, including the farm, forestry, chemicals, advanced manufacturing and services sectors.

This means agreeing, if necessary, to restoring the original IP provisions if the United States decides to rejoin. It means an intelligent removal of barriers to the auto trade that takes into account the likely continued deep integration of the North American auto production chains. It means agreeing with the TPP-11 members to at least the same degree of dairy liberalization that was agreed in the first TPP round, thus giving Canada more bargaining clout in the NAFTA talks with the US as its producers face more competition in the Canadian market.

If seen to dither on the ultimate goal of trade liberalization, Canada may be left in the cold by others who wish to forge ahead. It would then return to the unenviable position, in which it was at the time of joining the TPP talks in 2012, which were already well under way: that of seeing others shape the rules and take better advantage of opportunities in the Asia-Pacific.

If the TPP-11 fails altogether, the US and China will have even more power to impose rules benefiting their industries at the expense of those from smaller markets. Canada's tactical step back from a final TPP-11 deal in Da Nang this past weekend was an understandable move. But Canada should reiterate loud and clear its support for more open commerce across the Pacific as its ultimate policy goal, lest its tactical retreat turn into a strategic blunder.

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