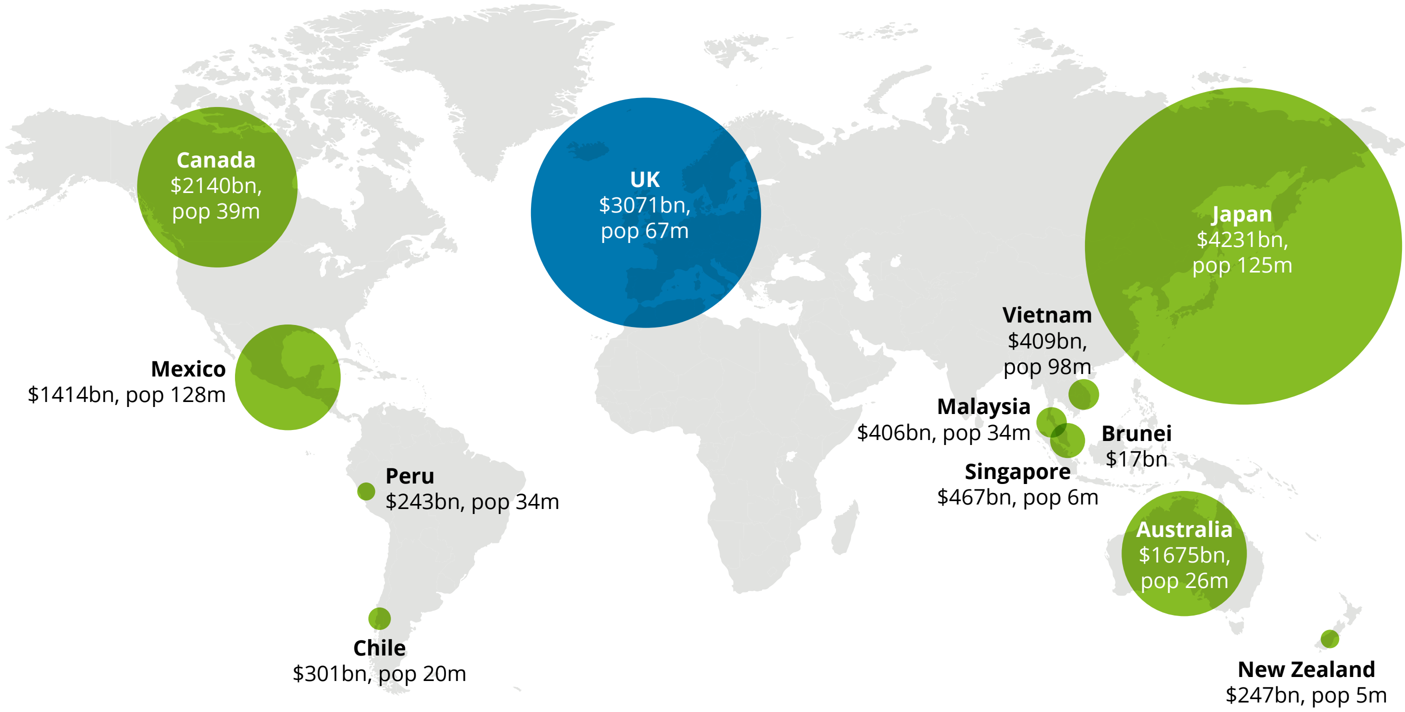
Deloitte.

Tax and Trade
Policy Group



CPTPP and your business

Automotive & Consumer Products

What is CPTPP?

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a trade agreement between 11 countries spanning the Pacific Rim (12 countries including the UK). Members include Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and Canada. Britain will be the first new country to join since its creation.

The CPTPP trade area is vast. Spanning the Pacific rim from Malaysia to Chile, CPTPP countries are home to 500 million people, 13% of global GDP (15% with the UK included) and already account for £110 billion of UK trade. Growth in recent years has averaged 8% annually and the government predicts UK exports to these countries will increase by 65% by 2030.

The trade agreement has already resulted in 95% of goods being traded between members tariff-free. Each member has its own schedule of market access commitments offered to some or all of the other members.

Most forecasts have suggested the economic gains from CPTPP membership will be modest. The UK government's analysis shows the deal is set to increase GDP by up to 0.1% over the next 15 years. However, the impact to UK trade could increase significantly as the commitments within CPTPP are developed further and more countries sign up.

China, Taiwan, Ecuador, Uruguay, Costa Rica and more recently Ukraine have all formally applied to join, with Thailand, South Korea and others expressing an interest.

Membership of CPTPP will provide greater certainty over the long term by locking in high standards and underpinning important investment relationships. However, the UK already has bilateral trade agreements with 9 of the 11 member countries – so is there any extra benefit to the UK joining?

While many of CPTPP's provisions are comparable to the UK's bilateral FTAs, in some areas CPTPP goes further – for instance, liberalising tariffs faster or providing greater regulatory cooperation. CPTPP gives businesses optionality, allowing them to choose whether to conduct trade under the terms of a bilateral FTA or CPTPP, depending on which offers the most favourable terms.

CPTPP also includes Malaysia and Brunei, with whom the UK did not previously have a trade agreement, and it offers strategic advantages such as giving the UK a stronger hand in setting the trading rules of the future.

What's in the deal?
Chapter highlights

Goods

CPTPP enables over 99% of UK exports to be eligible for tariff-free trade. Rates of duty on some goods are lower under CPTPP and tariffs may be eliminated faster than under bilateral FTAs. Adjustments to quota sizes and straightforward rules of origin may also result in more goods qualifying for lower tariffs. The agreement also includes provisions on establishing efficient and transparent customs procedures.

Rules of Origin

Compliance with Rules of Origin will be important for businesses wishing to take advantage of the preferential terms offered within CPTPP. 'Regional cumulation' means that CPTPP recognises inputs from all member countries as originating, so a product can more easily have undergone sufficient production within the trade area to be eligible for preferential tariff treatment.

Product regulations

CPTPP fosters cooperation rather than harmonisation on product regulations, reducing compliance costs. The agreement encourages members to use international standards and promotes transparency of product regulations, requiring countries to publish draft regulations online prior to implementation. It also includes provisions on the mutual recognition of conformity assessment and establishes dialogues with regulators across the region.

Services

CPTPP removes some common market access barriers such as labour market tests and establishment requirements. It also ensures that traders from one member state are treated no less favourably than domestic suppliers or those from other CPTPP countries. The agreement also encourages the recognition of professional qualifications, although it is not directly facilitated by the agreement itself.

Mobility

The UK's CPTPP accession facilitates the temporary entry of businesspeople to undertake certain activities in-country, removing some of the common obstacles to mobility such as economic needs tests and work visas – and requires countries to put transparent and predictable procedures in place.

Digital & data

CPTPP includes modern rules on digital trade, supports the free flow of cross-border data and prohibits unjustified data localisation measures. It prevents customs duties being applied to electronic transmissions and provides a range of other protections, for instance against the forced disclosure of source codes.

Investment

CPTPP guarantees protections for investors by providing legal certainty on the non-discriminatory treatment that they will receive relative to domestic investors. It also provides access to a transparent investor-state dispute settlement mechanism (ISDS) which allows investors to bring claims against governments in the event of unfair treatment'. Outward investment flows from the UK to CPTPP countries totalled £117.3bn in 2021. Investment from CPTPP countries in the UK accounted for at least 9% of UK inward investment in the same year.

Government procurement

CPTPP unlocks new government procurement opportunities and ensures UK firms receive the same treatment as domestic suppliers when responding to procurement opportunities in CPTPP countries. This will build on commitments the UK has with most members as well as opening up a new procurement market in Malaysia.

How could your business benefit?

Automotive & Consumer Products

Consumer goods

Producers of consumer goods could benefit from lower tariffs, flexible rules of origin and reduced regulatory barriers over the longer term. CPTPP ensures that product regulations are non-discriminatory and facilitates cooperation on technical barriers to trade between member countries. Conformity assessment may also be able to be completed in the UK prior to export to a CPTPP country, saving time and money.

Better access to the Malaysian market in particular could be an opportunity for the sector as tariffs are eliminated. CPTPP also commits the parties to transparent, efficient and consistent customs procedures, which allows for the smoother export of physical products.

Food and Drink

Through tariff reductions and market access, CPTPP creates new opportunities for food and drink producers to sell into some of the world's fastest growing markets.

The UK dairy sector is set to benefit from lower tariffs in Canada, Chile, Japan and Mexico. Exporters will benefit from greater access to Mexico's beef, pork and poultry markets and access to Canada's poultry market. Tariffs will be eliminated on chocolate and sugar confectionary destined for Mexico, and tariffs will be lowered or eliminated on whisky and confectionary exported to Malaysia.

Businesses will also benefit from greater transparency and information sharing on countries' food standards and safety regimes through the establishment of new dialogue structures to discuss and resolve technical issues.

Automotive

CPTPP is expected to facilitate higher UK exports of motor vehicles and parts. Growth anticipated here is driven primarily by lower tariffs and more flexible rules of origin, which allow a wider variety of car parts to count as originating, helping manufacturers to qualify for lower tariffs when exporting to other CPTPP countries.

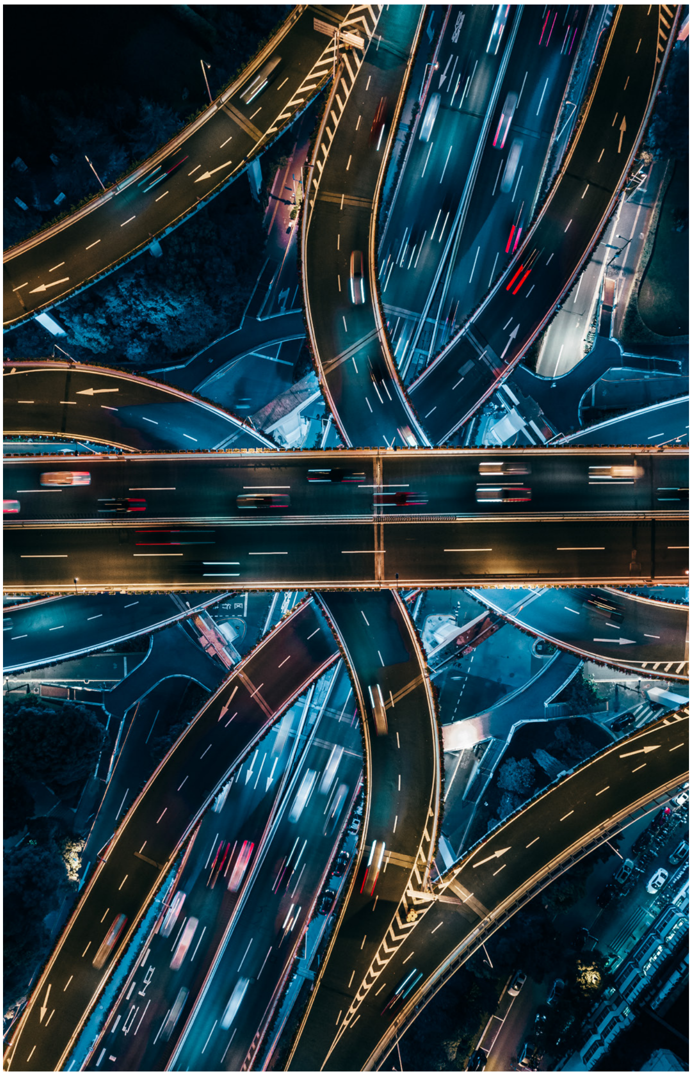
The automotive sector will also benefit from provisions which encourage the parties to ensure that technical regulations are non-discriminatory and restrict trade as little as possible.

In some cases, tariffs are eliminated quicker under CPTPP compared to bilateral FTAs – for example, on the supply of engines to Vietnam. Under CPTPP, there will be no tariffs on UK exports of new electric vehicles and wind turbine towers which meet the rules of origin. UK car manufacturers will also benefit from the staged removal of tariffs of 30% on UK exports of cars to Malaysia within 7 years.

"Flexible rules of origin could allow many more businesses with complex supply chains to benefit from reduced rates of duty."

What should I be doing now?

The impact of CPTPP on business will vary depending on market sector. Government modelling found that the economic gains of accession are broadly distributed, but we expect the greatest opportunities to be in the automotive, food & drink and consumer products sectors. There are several actions businesses should be considering now.



Tariff & Supply Chain Analysis

Businesses should be evaluating their operations and supply chain which takes place – or could be taking place – within CPTPP member countries. Traders may benefit from additional tariff reductions, new quota sizes and more flexible rules of origin which underpin more competitive trade in goods. Businesses should be undertaking a tariff analysis to assess exactly how the exposure of their products could be affected. Business trading in goods with Malaysia potentially stand to benefit more significantly.

Assess competition

Businesses should also be mindful of the increased levels of competition they could encounter in the domestic market following the removal of international trade barriers in CPTPP. Lower import prices and greater choice can be good for consumers, but businesses with an existing market share will want to anticipate any disruption.

Make informed investment decisions

All types of businesses could find that CPTPP membership helps to create a more positive investment environment in the UK and for outward investment to CPTPP countries. Businesses could also benefit from the guarantees in CPTPP on digital trade and the free flow of data. Recent and upcoming decisions on establishment, people and markets should be assessed in light of these new developments.

Understand timescales

Now that the treaty text has been published, enabling legislation will need to be passed in the UK parliament and ratification will need to take place. After 15 months, if the UK and six of the parties have ratified the agreement, it will enter into force with those parties. There may be a staged implementation as countries complete their own ratification processes.

The agreement is not anticipated to enter into force until late 2024, but businesses will need this time to implement change if they see a benefit in adjusting their structure, supply chains, sourcing, or sales strategy.

How can Deloitte help?

The UK's post-Brexit independent trade policy represents a permanent reshaping of trade & investment flows to and from the UK. Set against an increasingly complex international environment, decision-makers need to leverage deeper insights than ever before.

We support businesses in assessing their trade & investment priorities. Through our bespoke briefings, we help senior leaders to understand the direction of policymaking, identifying opportunities & risks. Our specialist multidisciplinary teams can provide a full spectrum advisory service across tax, customs, legal, immigration, technology & regulatory issues to help establish or develop your international strategy.

For support in assessing your trade and investment priorities, Deloitte's specialists are on hand to help.

Amanda Tickel
Head of Tax & Trade Policy
ajtickel@deloitte.co.uk
+44 (0)20 7303 3812

Henry Morris
Consultant
henmorris@deloitte.co.uk
+44 121 696 8821

James Caldecourt
Director
jcaldecourt@deloitte.co.uk
+44 (0)20 7303 6794

Bob Jones
Partner
bobjones@deloitte.co.uk
+44 (0)20 7007 5627

Deloitte.

Designed and produced by 368 at Deloitte. J31317