Department for International Trade

An information pack for the Consultation relating to the UK potentially seeking accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

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Introduction

The Department for International Trade (DIT) is an international economic department responsible for securing UK and global prosperity by promoting and financing international trade and investment, and championing free trade. It is working to establish deeper trade and investment relationships with countries beyond the European Union.

As set out in the Government's White Paper "The Future Relationship Between the United Kingdom and the European Union", the UK's proposal for its future economic partnership with the EU would enable the UK to pursue an ambitious bilateral trade agenda. Negotiating and implementing Free Trade Agreements (FTAs) with countries beyond the European Union is a key part of this.

Free Trade Agreements enable trade and investment, secure access for UK exporters to the markets of today and the future, give consumers access to a greater range of products at lower prices, and make the UK more innovative, competitive and prosperous.

Trade agreements aim to reduce trade barriers between countries. Barriers can be taxes charged on goods as they cross borders (tariffs), or different rules and regulations that can add to trade costs (non-tariff measures). Trade and investment barriers make it more difficult and costly to trade or invest overseas. Reducing these barriers can help the flow of goods, services and money for investment between countries, and help businesses to access markets they previously weren't able to. Consumers can benefit from access to a greater variety of products at lower prices.

Trade agreements also have wider benefits. These can include:

- boosting economic growth in the UK by encouraging more competition, investment and innovation;

- contributing to global prosperity, by boosting economic growth in countries that the UK does business with through international supply chains;

- increased global prosperity supporting social cohesion within and between countries, and in turn political stability, which is one of the building blocks of our collective security;

- benefits for developing countries – trade can be a vital tool in boosting developing countries' economic growth and reducing poverty, while also providing UK consumers and businesses with goods at competitive prices;

- an instrument of foreign policy – some countries use trade policy (including trade agreements) to advance standards and values.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a relatively deep Free Trade Agreement between 11 countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam). It has been signed by all parties and will enter into force once each party completes their applicable domestic legal procedures. The CPTPP is designed so that membership of the free trade area can grow as non-members accede to the agreement.

DIT is committed to using high-quality evidence to inform its trade policy. It is conducting a consultation to seek views on the possibility of the UK seeking accession to the CPTPP.

The aims of this pack are to:

- provide stakeholders with background evidence to support the consultation,

- clarify some of the terminology relating to Free Trade Agreements and the CPTPP agreement in particular, and

- provide information to respondents wishing to submit evidence setting out their views on the expected impacts of UK membership of the CPTPP.

The pack provides a brief overview of the economic impacts of FTAs and the primary mechanisms through which they can affect businesses, consumers and workers.

Definition of a plurilateral Free Trade Agreement

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a plurilateral Free Trade Agreement (FTA) between 11 members. An FTA is an international agreement which removes or reduces tariff and non-tariff barriers to trade and investment between partner countries.

FTAs may be multilateral, plurilateral, regional or bilateral:

- multilateral agreements are agreed by all members of the World Trade Organization (WTO);
- plurilateral or regional agreements are agreed by subsets of WTO members;
- bilateral agreements primarily relate to the liberalisation and regulation of trade and investment between the two signatories to the agreement.

Trade and investment barriers can make it more difficult and costly to trade or invest overseas. By removing or reducing them, FTAs can make it easier for firms to export, import and invest. They can also benefit consumers by providing a more diverse and affordable range of imported products.

FTAs differ from customs unions. Parties to an FTA maintain independence to set their own tariffs on imports from non-parties. By contrast, all signatories of a customs union commit to apply the same external tariff to non-signatories.

FTAs do not prevent governments from regulating in the public interest– for example, to protect consumers, the environment, animal welfare and health and safety. Equally, trade agreements do not require governments to privatise any service or prevent governments from expanding the range of services they supply to the public. For example, the UK Government has been clear about its commitment to protecting public services, particularly including the NHS. No future free trade agreement would affect the fact that it would remain up to the UK and devolved governments to decide how to run our publicly funded health services.

Plurilateral agreements can offer additional benefits to a series of separate bilateral agreements. They can allow businesses to produce goods across several countries, making greater use of tariff preferences than in bilateral FTAs.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership and its current members

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a relatively deep and comprehensive plurilateral Free Trade Agreement between 11, economically diverse, members. It is signed, but not yet in force and is currently comprised of members located in or around the wider Asia-Pacific region. The current members - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam - currently represent 13-14% of global GDP,[1] 7% of UK trade and are home to around 500m people.

Table 1: Economic indicators

Economic Indicator	United Kingdom	Australia	Brunei	Canada	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Vietnam
GDP (PPP, constant 2011 intl. $)	$2,579 billion	$1,077 billion	$30 billion	$1,568 billion	$405 billion	$4,862 billion	$801 billion	$2,195 billion	$168 billion	$384 billion	$463 billion	$552 billion
GDP per capita (constant 2011 PPP $)	$39,309	$44,494	$71,789	$43,238	$22,614	$38,238	$25,669	$17,207	$35,777	$12,082	$82,622	$5,838
Trade (% GDP)	59%[2]	41%	87%	64%	56%	31%	129%	76%	51%	45%	310%	185%
Population	66 million	24.2 million	423 thousand	36 million	18 million	127 million	31 million	128 million	4.7 million	32 million	5.6 million	95 million
Industry, value added (% GDP)	20%	24%	57%	29% [2014]	31%	30%	38%	33%	22% [2014]	33%	26%	36%
Services, etc., value added (% GDP)	79%	73%	42%	69% [2014]	64%	69%	53%	63%	71% [2014]	60%	74%	45%
Agriculture, value added (% GDP)	1%	3%	1%	2% [2014]	4%	1%	9%	4%	7% [2014]	8%	0%	18%

Source: World Bank Development Indicators (data is for 2016 unless otherwise stated). Data for value added retrieved in May 2018

Were the UK to accede to CPTPP, it would currently be the second largest member by size of economy (after Japan) and the coverage of global GDP would be around 17%.[3] The US was a member of the CPTPP's precursor agreement, although it has withdrawn. Were the US to re-join, coverage of global GDP would be over 40%. Other countries have also expressed an interest in acceding.

1. In 2017, CPTPP members constituted 13.3% of global GDP (Nominal GDP, IMF World Economic Outlook, April 2018)
2. Note that this figure is taken from the World Bank Development Indicators dataset and therefore does not exactly match the ONS figure of 62% quoted below
3. Nominal GDP, averages over several years, IMF World Economic Outlook, April 2018

Scope of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership

Free Trade Agreements (FTAs) can vary in scope and level of ambition. Less complex agreements focus more on trade in goods and the elimination of tariffs. Over time the scope and depth of FTAs has generally grown, including provisions addressing trade in services and investment. FTAs increasingly address domestic policies inhibiting trade and investment, known as "behind the border" barriers.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a relatively deep agreement which seeks to address barriers in order to boost trade and investment between members and facilitate the formation of international production networks between members.

The CPTPP comprises 30 chapters, which set out the detailed provisions of the agreement. The provisions within CPTPP cover a wide range of areas including goods, services, investment as well as new issues such as the digital economy, intellectual property rights, regulatory coherence, labour and the environment.

The text of CPTPP is available online at the website of the New Zealand Government (acting as depositor of the agreement).

Chapter title	Chapter Objectives and Main Coverage of Provisions
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) text	Incorporates the chapters below from the TPP into the CPTPP, with the exception of a small number of suspended provisions – the most numerous being in the Intellectual Property Chapter – and some amendments to the provisions on entry into force, accessions and withdrawal in Chapter 30.
Chapter 1: Initial Provisions and General Definitions	Sets out overarching definitions for the CPTPP and clarifies the relationship between CPTPP and other free trade agreements.
Chapter 2: Trade in Goods	Parties agree to eliminate and reduce tariffs and non-tariff barriers on goods. The precise schedules for tariff elimination (including staging periods) by each country is set out in an annex to the chapter (2-D).
Chapter 3: Rules of Origin	A single set of rules that define whether a good is "originating" and therefore eligible to receive preferential tariff benefits under CPTPP, as well as agreeing a common system for verifying origin of goods. The product-specific rules of origin are annexed to the chapter (3-D). In general, inputs from one CPTPP Country are treated the same as materials from any other CPTPP Country, and so can count as "originating".
Chapter 4: Textiles and Apparel Goods	Sets out some sector specific rules of origin for trade in textiles within CPTPP region, as well as some additional measures on customs co-operation. A list of the product specific rules of origin is annexed at (4-A).
Chapter 5: Customs Administration and Trade Facilitation	Contains rules designed to improve trade facilitation and transparency in customs procedures; for example, by publishing customs regulations, committing to provide for release of goods without unnecessary delay, and provide expedited customs procedures for express shipments.

Chapter 6: Trade Remedies	Provides for a transitional safeguard mechanism, which allows a CPTPP member Country to apply temporary protective measures if an increase in imports as a result of tariff cuts cause harm to a domestic sector. Confirms each parties' rights and obligations under the existing WTO Agreements relating to trade remedies and sets out best practice process for anti-dumping and countervailing duty investigations.
Chapter 7: Sanitary and Phytosanitary (SPS) Measures	Commits parties to ensure transparent, non-discriminatory rules based on science to protect human, animal or plant life or health in their countries. It sets out procedures for seeking mutual recognition of regulation and putting in place emergency measures.
Chapter 8: Technical Barriers to Trade (TBT)	Aims to establish transparent, non-discriminatory rules for developing technical regulations, standards and conformity assessment procedures for goods that do not create unnecessary barriers to trade.
Chapter 9: Investment	Provides protection for investors in the territory of other parties, including commitments to: give equivalent treatment to investors from CPTPP countries and domestic investors; to prohibit expropriation that is not for public purpose, without due process, or without compensation; and to prohibit "performance requirements" on, for example, local content or technology localisation. The chapter also includes provisions for investor-state dispute settlement
Chapter 10: Cross-Border Trade in Services	Includes a commitment between the parties to liberalise their services markets. It requires parties to treat service suppliers from other CPTPP countries at least as well as domestic suppliers and it prevents parties from imposing restrictions on the supply of services from CPTPP countries. Parties have made these commitments on a "negative-list basis," meaning that these commitments apply to all service sectors other than those annexed in Annexes I and II to CPTPP.
Chapter 11: Financial Services	Incorporates and adapts certain provisions from the foreign investment chapter and cross-border trade in services chapter. These aim to increase cross-border trade and investment in financial services within CPTPP countries, while ensuring that parties in CPTPP will retain the ability to regulate financial markets and institutions and to take emergency measures in the event of crisis.
Chapter 12: Temporary Entry for Business Persons	Aims to facilitate the temporary movement of business people between CPTPP countries; for example, by ensuring that application fees for entry documents are reasonable, and that decisions on applications are made as quickly as possible. Each CPTPP Countries have made commitments on access for each other's business persons, which are annexed to this chapter (12-A).

Chapter 13: Telecommunications	CPTPP Countries commit to ensure that their telecommunications suppliers will provide key services in their territory, and to transparent and non-discriminatory regulation.
Chapter 14: Electronic Commerce	Contains a commitment to ensuring the free flow of data and prohibits the imposition of customs duties on electronic transmissions and the imposition of data localisation requirements. It maintains consumer protection laws and ensures that privacy and other consumer protections can be enforced.
Chapter 15: Government Procurement	The parties commit under this chapter to treat suppliers to government from CPTPP countries in a fair and non-discriminatory manner. The entities and activities covered by these commitments are listed in an annex to the chapter (15-A)
Chapter 16: Competition Policy	Requires parties to have a legal regime in place to prevent anticompetitive conduct, and to cooperate around competition law, policy and enforcement.
Chapter 17: State-Owned Enterprises (SOEs) and Designated Monopolies	Contains several disciplines on State-Owned-Enterprises, ensuring that they are regulated impartially, operate on a commercial basis, and do not discriminate against suppliers from CPTPP countries.
Chapter 18: Intellectual Property	Covers patents, trademarks, copyrights, industrial designs, geographical indications, trade secrets and enforcement of intellectual property rights. It includes commitments on trademarks, including the extension of trade marks into non-visual representations such as sound and scent; cooperation between patent offices and measures specific to pharmaceutical products; a commitment to provide civil remedies for infringement of intellectual property rights, and requirements to ratify international intellectual property conventions.
Chapter 19: Labour	CPTPP Countries agree to protect basic labour rights, and to eliminate forced labour and child labour.
Chapter 20: Environment	Parties agree to enforce their environmental laws and fulfil obligations under international conventions, take measures to prevent the illegal wildlife trade, and protect the natural environment.
Chapter 21: Cooperation and Capacity Building	Establishes a Committee on Cooperation and Capacity Building to identify and review areas for potential cooperative and capacity building efforts.

Chapter 22: Competitiveness and Business Facilitation	Aims to help the CPTPP reach its potential to improve competitiveness, by creating formal mechanisms to review the impact of the CPTPP and establishing dialogues between government, business and non-governmental groups.
Chapter 23: Development	Includes specific areas of development to be considered for collaborative work once CPTPP enters into force for each Country: (1) broad-based economic growth; (2) women and economic growth, and (3) education, science and technology, research, and innovation.
Chapter 24: Small- and Medium-Sized Enterprises	Includes commitments by each CPTPP Country to provide easily accessible information on the CPTPP and ways small firms can take advantage of it.
Chapter 25: Regulatory Coherence	Aims to facilitate regulatory coherence in each CPTPP country and encourages widely-accepted good regulatory practices.
Chapter 26: Transparency and Anti-Corruption	Re-affirms parties' commitment to eliminating bribery and corruption in international trade and requires them to have an appropriate legal framework in place to tackle it.
Chapter 27: Administrative and Institutional Provisions	Covers patents, trademarks, copyrights, industrial designs, geographical indications, trade secrets and enforcement of intellectual property rights. It includes commitments on trademarks, including the extension of trade marks into non-visual representations such as sound and scent; cooperation between patent offices and measures specific to pharmaceutical products; a commitment to provide civil remedies for infringement of intellectual property rights, and requirements to ratify international intellectual property conventions.
Chapter 28: Dispute Settlement	Allows countries to address disputes over implementation of the CPTPP and sets up a mechanism to resolve those disputes – initially through consultation and cooperation, then via an impartial panel.
Chapter 29: Exceptions and General Provisions	Reaffirms the principle established in the WTO that nothing in the CPTPP shall be construed to prevent the adoption or enforcement by a Country of measures necessary to, among other things, protect public morals, human, animal or plant life or health, intellectual property or national security.
Chapter 30: Final Provisions	Defines the way the CPTPP will enter into force, the way in which it can be amended, and the rules for accession by new members – although these are largely replaced by the CPTPP text that sits above the chapters.

Economic objectives of the UK potentially seeking accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership

In general, Free Trade Agreements (FTAs) are expected to enhance economic growth and prosperity by:

- increasing import and export flows;
- increasing investment flows (both outward and inward);
- enhancing productivity through a more efficient allocation of resources, greater openness to international competition and supporting the formation of international production networks.

Potential UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) would offer an opportunity to deepen the UK's trade and investment relationship with countries of the Asia-Pacific region and beyond.

The UK already has preferential access to Free Trade Agreements (FTAs) between the EU and several existing members of CPTPP: Canada, Mexico, Peru, Chile, Japan, Singapore and Vietnam.[4] As set out in the Government's 2017 White Paper "Preparing for our future UK trade policy", the UK is seeking continuity of these existing agreements. The UK has also launched public consultations relating to bilateral FTAs with Australia and New Zealand, who are members of CPTPP.

If the UK were to seek accession to CPTPP, it would be intended to complement, rather than replace, existing EU agreements or the negotiation of new UK bilateral FTAs with CPTPP members. Many of the members of CPTPP have existing bilateral agreements with each other.

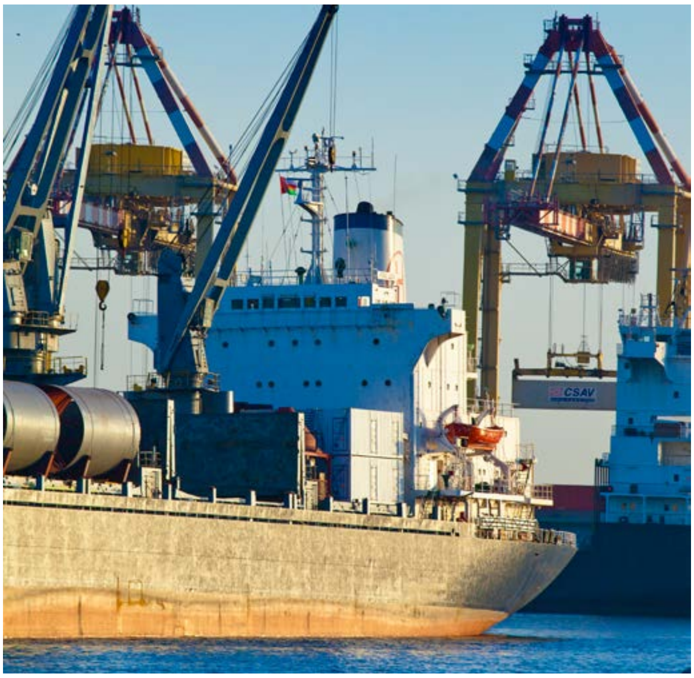
CPTPP membership, if pursued, would offer the potential to increase the coverage of FTA partners in the Asia-Pacific region. This is particularly the case as the CPTPP membership grows. For some countries and sectors, CPTPP includes deeper provisions than existing agreements and could provide additional benefits. Due to the coverage and depth, UK membership could offer opportunities for UK businesses to benefit from expanding and deepening global supply chains with a group of diverse economies.

Potential UK membership of CPTPP may provide the opportunity to help shape international trade rules in critical and growing areas of trade for the UK economy such as data, digital and e-commerce. Although the benefits of cooperation on future rules are difficult to quantify, some authors argue that these benefits will prove to be the agreements most valuable contribution in the long-run.[5]

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership and bilateral trade in goods and services

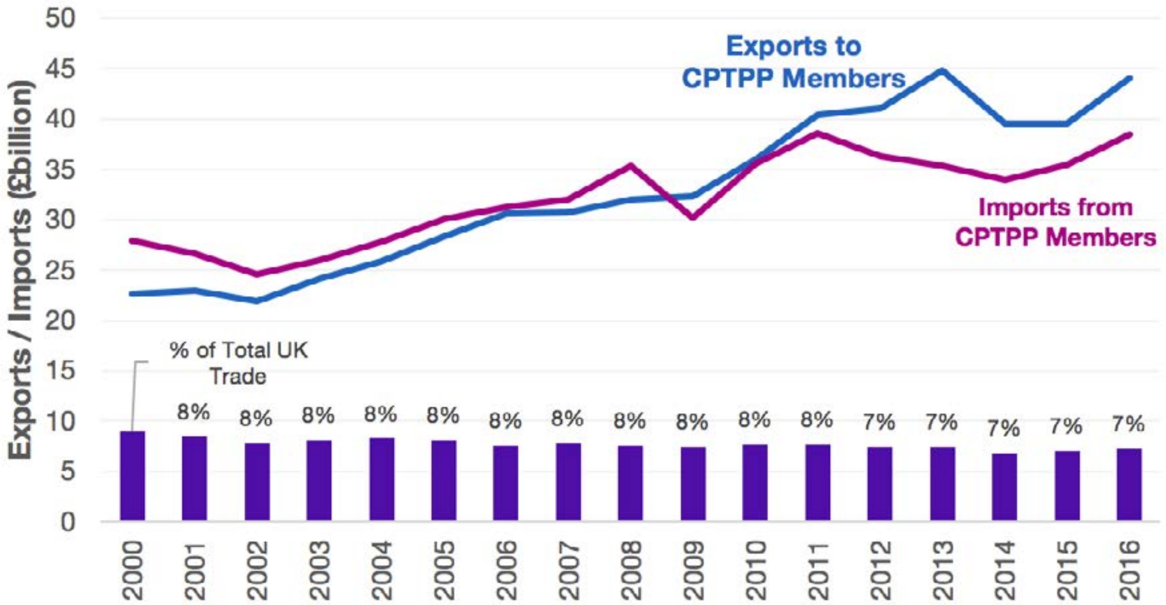
The UK is a highly open economy with trade (imports and exports together) comprising 62% of GDP.[6]

In 2016, total UK trade with current members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was around £82 billion, representing 7% of UK trade. Within CPTPP, Japan and Canada are the UK's largest trading partners (representing around 30% and 20% of total UK trade with the CPTPP), followed by Australia and Singapore. With the CPTPP countries as a group, the UK has a small trade surplus; exports were around £44 billion in 2016 and imports worth around £38 billion. Goods trade is substantially higher than services trade.



4. The agreement with Canada has been provisionally applied since September 2017 but is awaiting ratification. The agreement with Japan was signed on 17 July 2018. Agreements with Singapore and Vietnam are still awaiting signature, and agreements with Mexico and Chile are in the process of modernisation.
5. See, for example, Petri and Plummer (2016).
6. ONS UK Trade (March 2018), ONS GDP releases.

Figure 1: UK exports and imports to and from members of CPTPP (2000-2016)



Source: Office for National Statistics, ONS Pink Book, available at "Further additional country data for trade in goods and services between 1999 and 2016" (user requested data – released 22nd January 2018). Current Prices

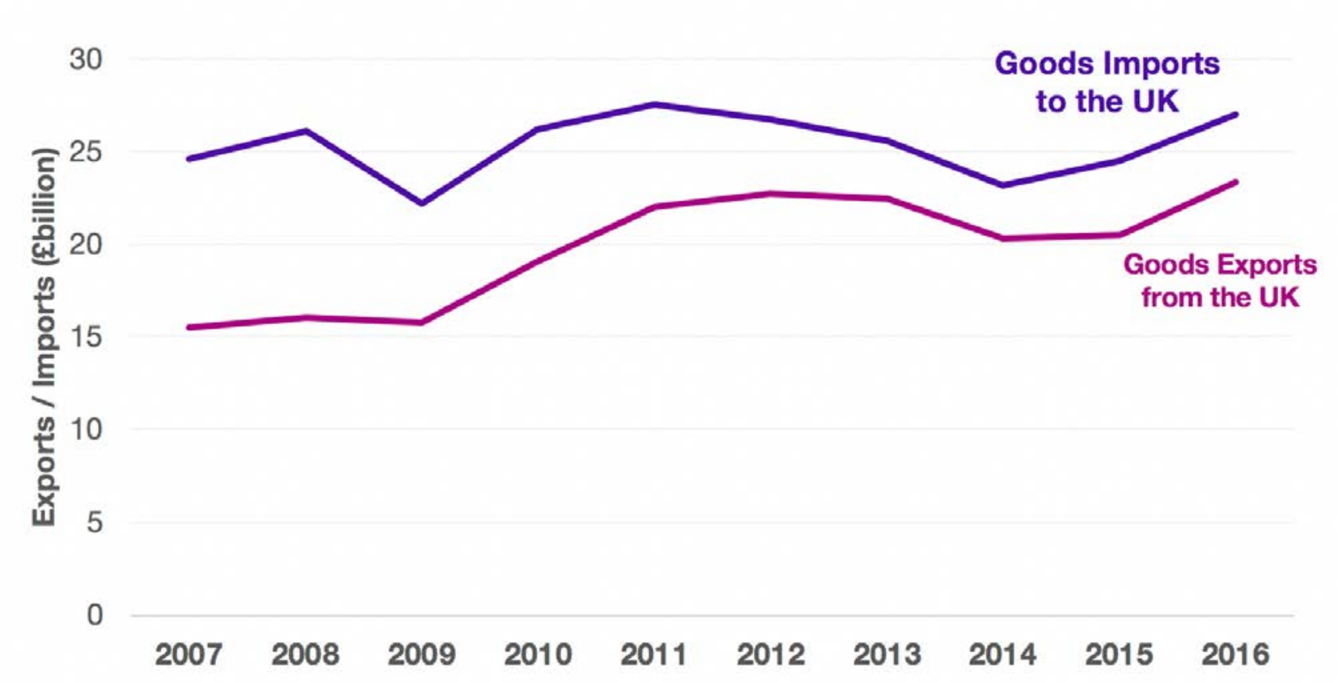
The Comprehensive and Progressive Agreement for Trans-Pacific Partnership and trade in goods

Goods trade between the UK and members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) totalled around £50 billion in 2016, accounting for around 7% of total UK goods trade.[7] The UK's largest exports to CPTPP countries have been machinery, vehicles, pharmaceutical products and electrical machinery (by HS2 product code: accounting over 50% of total UK exports to CPTPP countries).[8] CPTPP countries receive over 10% of UK exports of beverages and spirits, and of machinery.

Goods imports from CPTPP members have remained broadly constant over the last decade and were around £27 billion in 2016. Goods exports have been growing over the same period, from around £15 billion in 2007 and reaching over £23 billion in 2016.

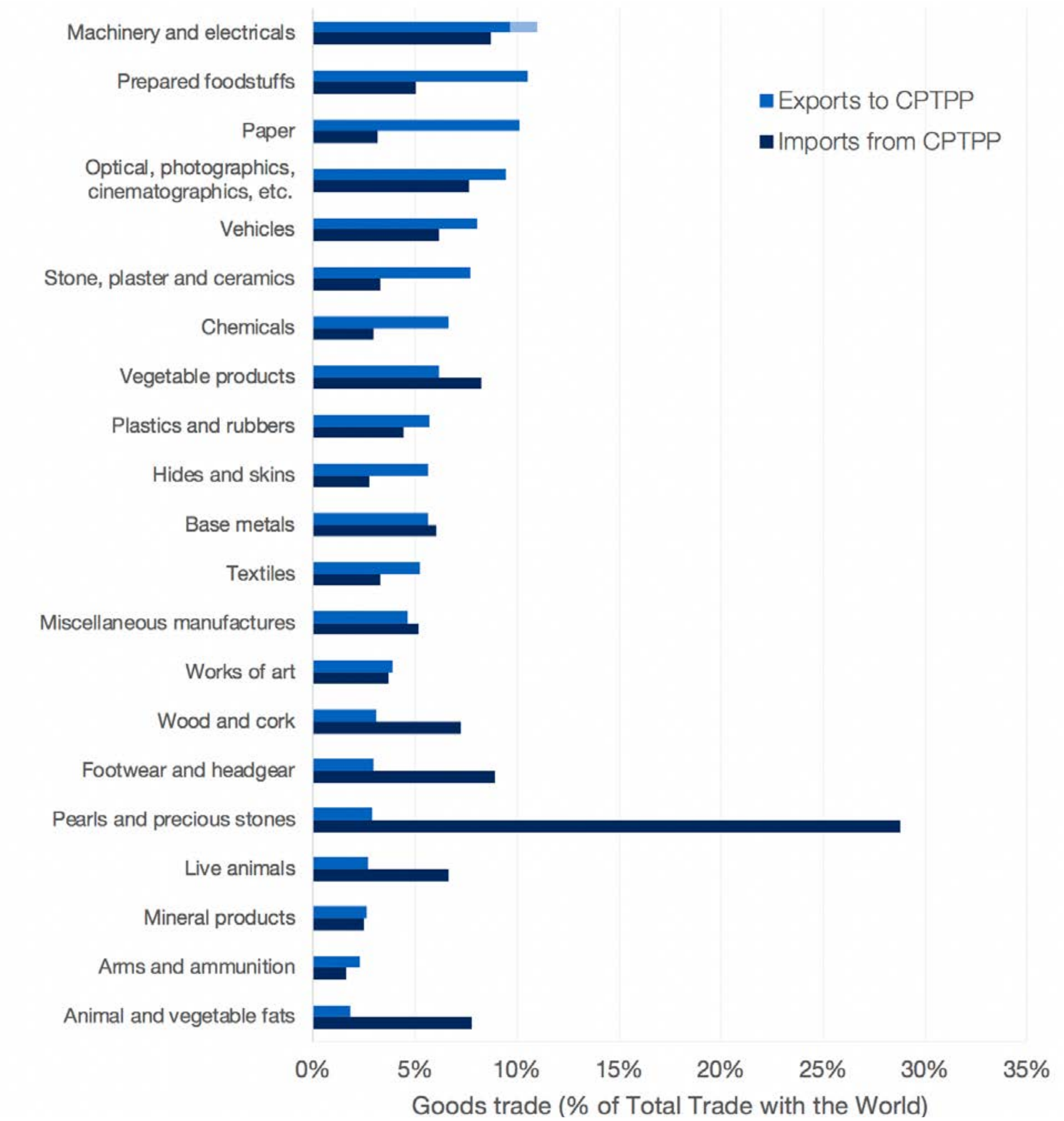
7. ONS Pink Book 2017, Figures for 2016.
8. HMRC trade statistics by commodity code.

Figure 2 – UK goods exports and imports to and from CPTPP Members (2007-2016



Source: Office for National Statistics, ONS Pink Book, available at "Further additional country data for trade in goods and services between 1999 and 2016" (user requested data – released 22nd January 2018).

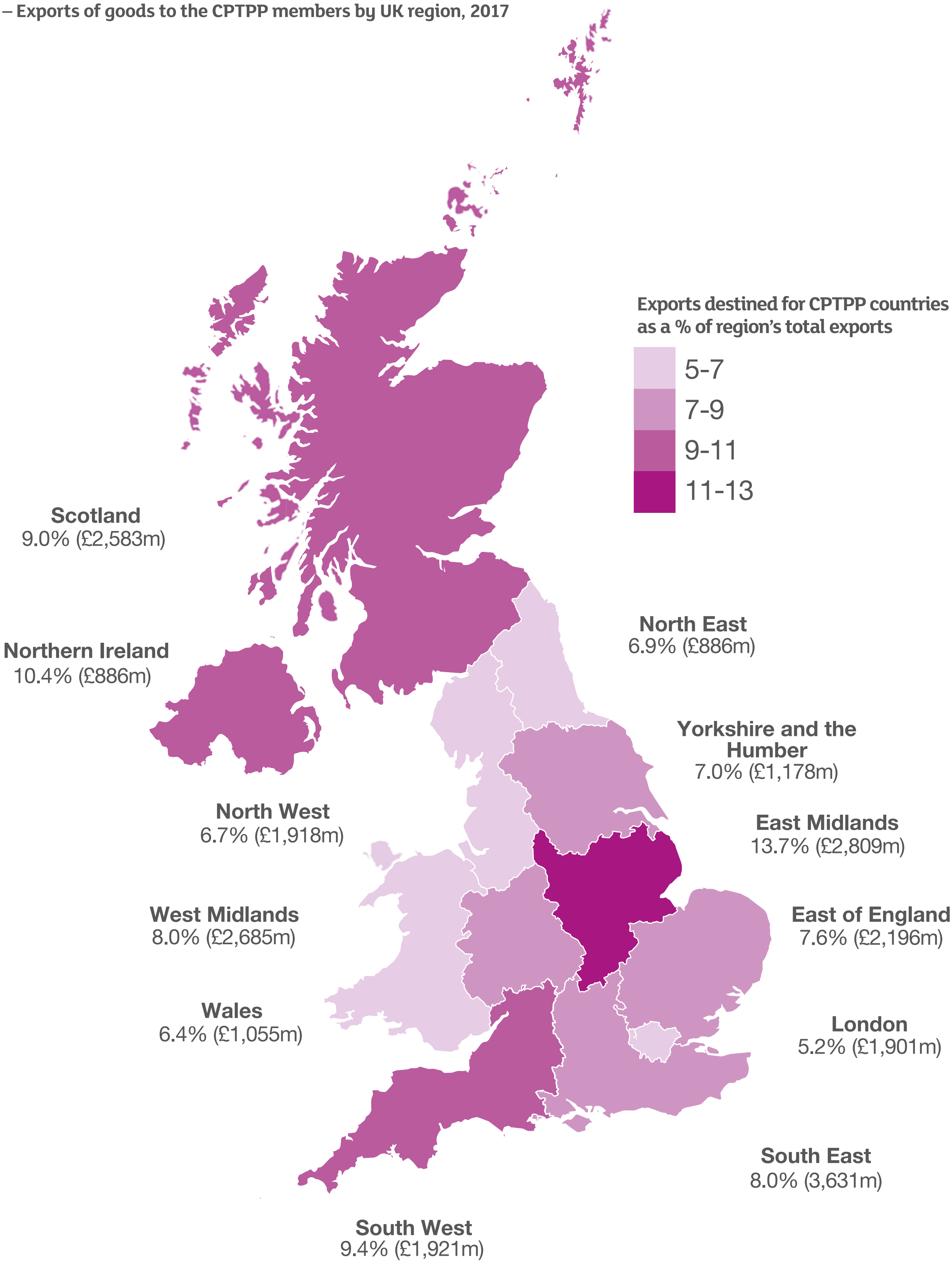
Figure 3 – CPTPP share of UK goods exports and imports from the world, by sector (average 2015-17)



Source: DIT Calculations on HMRC trade statistics by commodity code. Sectors classified according to Harmonised System Sections. Data uses an average from 2015 to 2017. Note: They are on a different (i.e. 'physical movement') basis than the ONS ('Balance of Payments') data which are based on the 'change of ownership' criterion.

Correction: The previous publication of this Information Note included a chart showing the CPTPP share of UK goods and services exports to non-EU countries. That graph was incorrectly labelled as the share of trade with the World. It has been replaced with the correct data above.

Figure 4 – Exports of goods to the CPTPP members by UK region, 2017



Source: HMRC regional trade statistics

International trade in goods is subject to a wide range of tariff and non-tariff measures. These can significantly increase the costs and difficulties associated with international trade. Higher costs reduce the profitability of international trade, raise prices and reduce consumer choice globally.

Tariffs can be implemented in a number of ways, such as ad valorem tariffs, non-ad valorem tariffs, tariff rate quotas and countervailing measures.[9] These can be levied with the objective of protecting domestic producers, raising revenues, or both.

Non-tariff measures (NTMs) are policy measures that may have an effect on trade by changing what can be traded, and at what price. For example, goods may need to comply with technical regulations. There can also be a need to meet requirements intended to protect humans, animals, and plants from diseases, pests, or contaminants. NTMs may occur at the border or 'behind the border'. Behind the border refers to any NTMs that are applied inside an individual country but do not get checked at the border and therefore do not stop a product entering - for example labelling requirements.

NTMs can serve legitimate public policy objectives, and they do not all reduce trade. For example, the enforcement of high product standards may increase consumer demand for some goods. However, in other cases, non-tariff measures can act as barriers, raising trade costs and reducing trade.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) includes a range of provisions which could affect trade in goods through addressing tariff and non-tariff barriers to trade. Some provisions aim to build upon existing WTO rules by strengthening commitments or creating new mechanisms to improve implementation in the region. Some provisions improve international policy cooperation so that remaining or future measures do not unintentionally impede trade.

From an economic perspective, free trade agreements provisions can reduce the fixed and variable costs associated with trading internationally, leading to an increase in both the number of exporting businesses and the value of exports from existing exporters.

CPTPP aims to liberalise trade in goods by:

Addressing border barriers

- **Lowering costs –** a detailed analysis of the tariff schedules in the literature suggests that the CPTPP includes significant liberalisation of trade between CPTPP members. In some cases, the tariff reduction commitments are phased over many years.[10]
- **Providing greater ease –** The agreement includes chapters and provisions relating to customs administration and trade facilitation, which aim to facilitate the entry of goods, reduce administrative costs and reduce delays. For the most part, these measures tend to build upon the WTO's Trade Facilitation Agreement and have the potential to reduce the costs of trade and allow production to take place across borders.

Addressing 'behind-the-border' barriers to goods trade

- CPTPP also seeks to address several behind-the-border issues. For example, the agreement includes mechanisms for setting food standards and addressing technical barriers to trade. Removing or reducing non-tariff barriers to trade, and improving policy cooperation on non-tariff measures, can reduce the cost of trading products internationally. This can both increase the number of exporters and also increase the value of trade undertaken by existing exporters and importers.

9. Ad valorem tariffs are based upon a percentage of the value of a good, while non-ad valorem tariffs are based on the weight or the ingredients within a good. Tariff rate quotas allow a specific quantity of goods to enter at a reduced or tariff-free rate before higher duties are charged. Countervailing measures are duties levied on goods from countries which may have unfair state subsidies.
10. Freund, Moran and Oliver (2016) analyse the tariff schedules of TPP members of the 'TPP12' (prior to the announcement of the US withdrawal from the agreement). They find that nearly three-quarters of non-zero tariffs will be removed and in the long run 99 per cent of goods trade will be liberalised. Tariff liberalisation would be nearly complete after 16 years and only fully complete after 30 years. These gradual reductions provide time for industries to adjust. A particular feature of agreement is that tariff reduction schedules are different across some partners reflecting the different trade sensitivities of various partners.

Evidence suggests that Free Trade Agreements (FTAs) can lead to large, sustained increases in trade in goods between partner countries. A review of many studies of the impacts of FTAs found that that they can boost total bilateral trade between partners by around 32%, although estimates from the literature vary widely.[11] A recent study by HM Treasury, based on different data sources and methodology, estimated that FTA membership is associated with a 17% increase in total trade, on average.[12] These studies indicate that deeper agreements tend to generate larger increases in trade. Evidence also suggests that trade flows continue to increase for up to 10 years after an agreement enters into force, meaning that the impacts of FTAs take time to be fully felt.[13]

Not all of the increases in bilateral trade between partners of an FTA represent additional trade at a global level. Some of the increases will have been diverted from trade with other countries that are not in the agreement.

A recent study of the economic impact of the CPTPP agreement on the 11 current members predicted that the value of goods exports between members would increase for all sectors by 2035, except for rice.[14]

Preferential tariffs and Rules of Origin (RoO) in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

Free Trade Agreements (FTAs) can liberalise tariffs on a preferential basis between signatories. Unlike in a customs union, members of an FTA continue to each decide the tariffs which they apply to non-signatories of the agreement.

Product specific RoO have already been agreed in CPTPP. There are three ways products can determine substantial transformation and confer origin in CPTPP:

1. Regional value content requirement: the final cost of a good must contain a certain percentage of value originating in CPTPP member countries,
2. Change of heading/subheading: the production process must be sufficient to alter the tariff classification the good, either by changing the HS4 or HS6 code,
3. Technical rule: a good must undergo a set production process within the territory of CPTPP members.

The treaty sets out which of these rules each product must meet. For most products covered by CPTPP, the required rule is change in heading/subheading (option 2 above). Some products also provide the option of a second rule (either value content or technical) which allows exporters to choose which is least burdensome for them to meet.

11.Head & Mayer (2013)
12. HMT (2016) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517415/treasury_analysis_economic_impact_of_eu_membership_web.pdf
13. See for example: Egger et al. (2015); Baier & Bergstrand (2007)
14. Ciuriak, Xiao, & Dadkhah (2017)

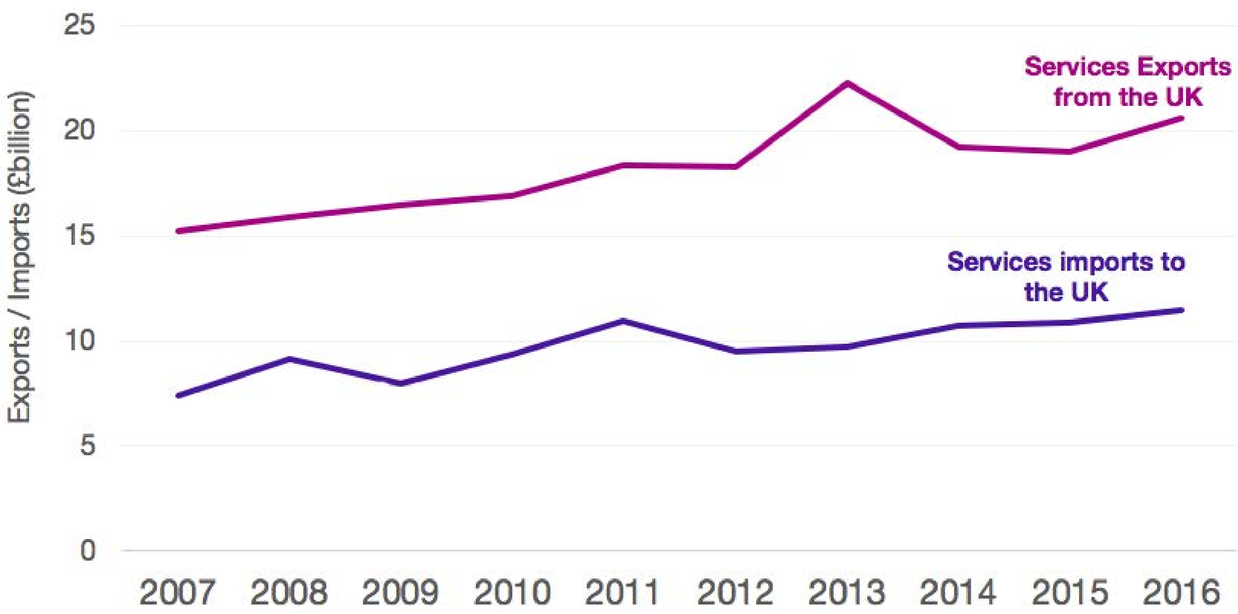
The Comprehensive and Progressive Agreement for Trans-Pacific Partnership and trade in services

Services are increasingly important for the UK economy, accounting for 79% of UK GDP in 2016.[15] Service sectors are also very important for UK trade. The UK consistently exports more services than it imports and ran a surplus in services trade of £112 billion in 2017. In gross terms, services exports accounted for around 45% of total UK exports in 2017.[16] When measured on a value-added basis, around two-thirds of the value of UK exports originate from services sectors.[17] This means that services also provide an important source of inputs to UK goods exports.

Services trade between the UK and members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) totalled around £30 billion in 2016, two-thirds of which were exports. Financial services are the largest exports from the UK (28% of service exports from 2014 to 2016, primarily to Japan). These were followed by other business services (22%) and travel services (spending on UK education, healthcare and by temporary visitors to the UK, 18%).

Among CPTPP members, services trade is highest from the UK to Japan, followed by Australia, Canada and Singapore. Both exports and imports have been growing over the last decade (see chart below).

Figure 5 – UK services exports to and services imports from CPTPP Members (2007-2016)

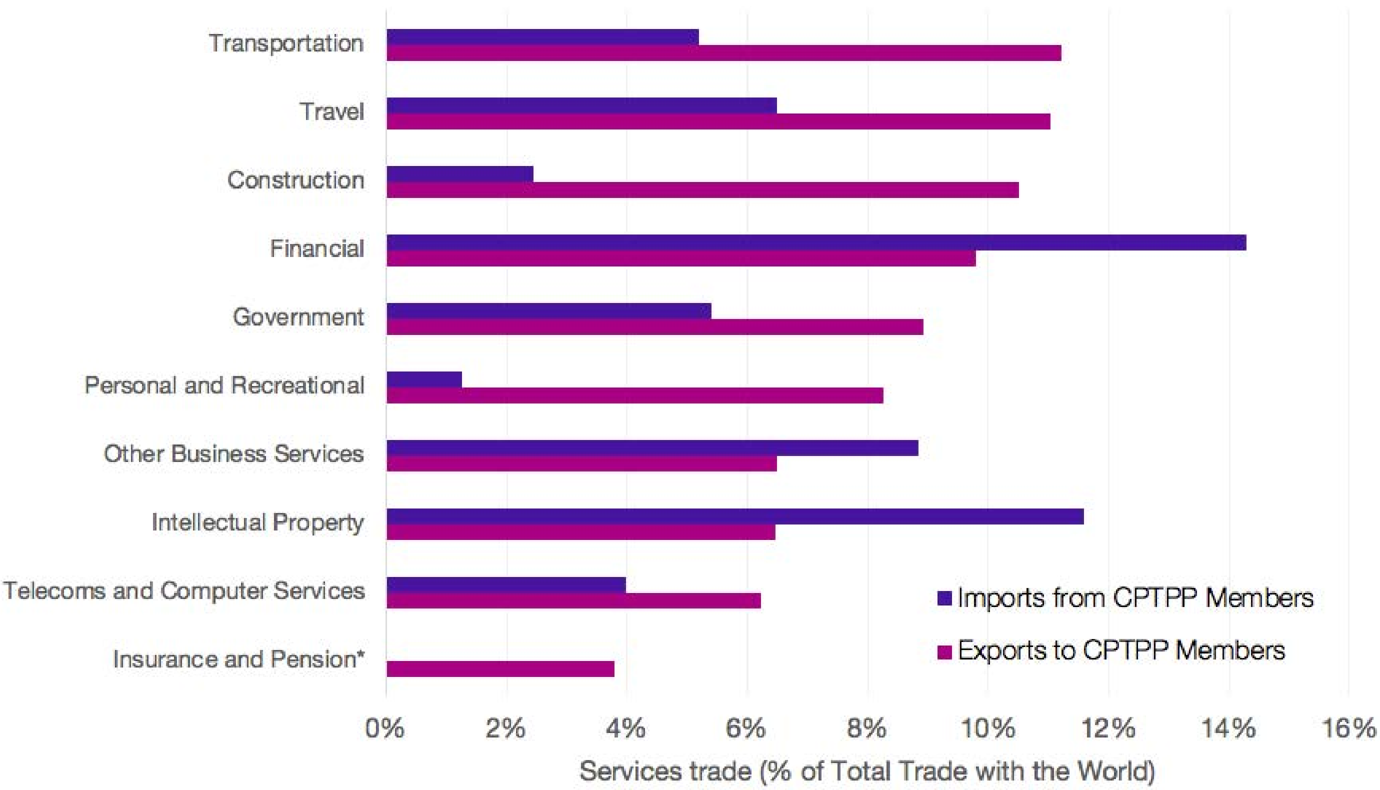


Source: Office for National Statistics, ONS Pink Book, available at "Further additional country data for trade in goods and services between 1999 and 2016" (user requested data – released 22nd January 2018).

15. ONS UK gross domestic product (output approach) low-level aggregates
16. ONS UK trade: goods and services publication tables
17. OECD Trade in Value Added dataset

Figure 6 – Share of UK services exports to and imports from 8 CPTPP members, by industry (average 2014-16)

Note, this table below includes all exports and imports from 8 CPTPP members, but data is unavailable for Peru, Brunei and Vietnam, so represents an underestimate of the share of trade accounted for by CPTPP member states.



Source: Office for National Statistics: Trade in services by country and type of service 2014 to 2016, consistent with Pink Book 2017, released 31st October 2017.
*On a number of occasions, particularly in insurance exports, the data is disclosive and therefore unpublished.

As defined under the WTO's General Agreement on Trade in Services (GATS), trade in services is categorised in four ways (modes). A company in one country can sell services across a border to consumers in another (Mode 1), a consumer can buy services while abroad (Mode 2); a company can establish a commercial presence abroad to provide services (Mode 3) and services suppliers can travel abroad to provide a service (Mode 4).

Services trade is not subject to tariffs. However, each mode of service supply can be subject to a range of 'behind-the-border' measures. These may restrict the access of foreign service suppliers to the market or discriminate against foreign suppliers in favour of domestic suppliers.

As with non-tariff measures affecting trade in goods, regulatory barriers affecting services can achieve legitimate public policy objectives. However, in some cases, they have an unwanted effect of impeding trade in services and it is desirable to remove them. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) includes a number of provisions which could affect trade in services.

Members of the WTO's General Agreement on Trade in Services (GATS) provide lists of commitments relating to maintaining the openness of their services sectors. In general, Free Trade Agreements (FTAs) can provide opportunities to agree 'GATS-plus' provisions, such as:

- guaranteeing existing levels of market access;
- negotiating new market access in sectors of particular interest;
- promising that the current FTA partner will be offered at least as good access as any future FTA partner (extension of the "most favoured nation" principle);
- improving transparency of domestic regulation such as standards, licensing and recognition of qualifications.

In general, the CPTPP agreement includes provisions which are more comprehensive than existing WTO commitments on services. It allows exceptions only on a negative list basis. The negative list approach means that countries specifically list which products or services they will maintain trade barriers on. If a product is not listed, then no restrictions exist and the product is subject to be traded openly.

Economic evidence suggests that deep trade agreements, like CPTPP, can increase services trade if they include provisions on specific sectors that tackle pervasive behind-the-border barriers, such as regulatory alignment and national treatment rights.[18] Services and goods trade are interlinked, so that an open services sector is an important contributor to maintaining internationally competitive goods sectors.

A recent study of the economic impact of the CPTPP agreement on the 11 current members estimated that services trade between CPTPP members would increase for all service sectors except "Recreation Services" and "Other Services".[19] These estimated increases in the study were largest in "Financial Services", "Business Services" and "Construction".

From an economic perspective, Free Trade Agreements can liberalise trade in services via 3 channels:

- Lowering barriers and levelling the playing field – Liberalising services trade by lowering barriers allows for greater market access for foreign services suppliers.

- Providing greater certainty – 'Locking-in' currently applied levels of market access ensures greater certainty for businesses and encourages new exporters to incur the fixed, sunk costs required to export their services.

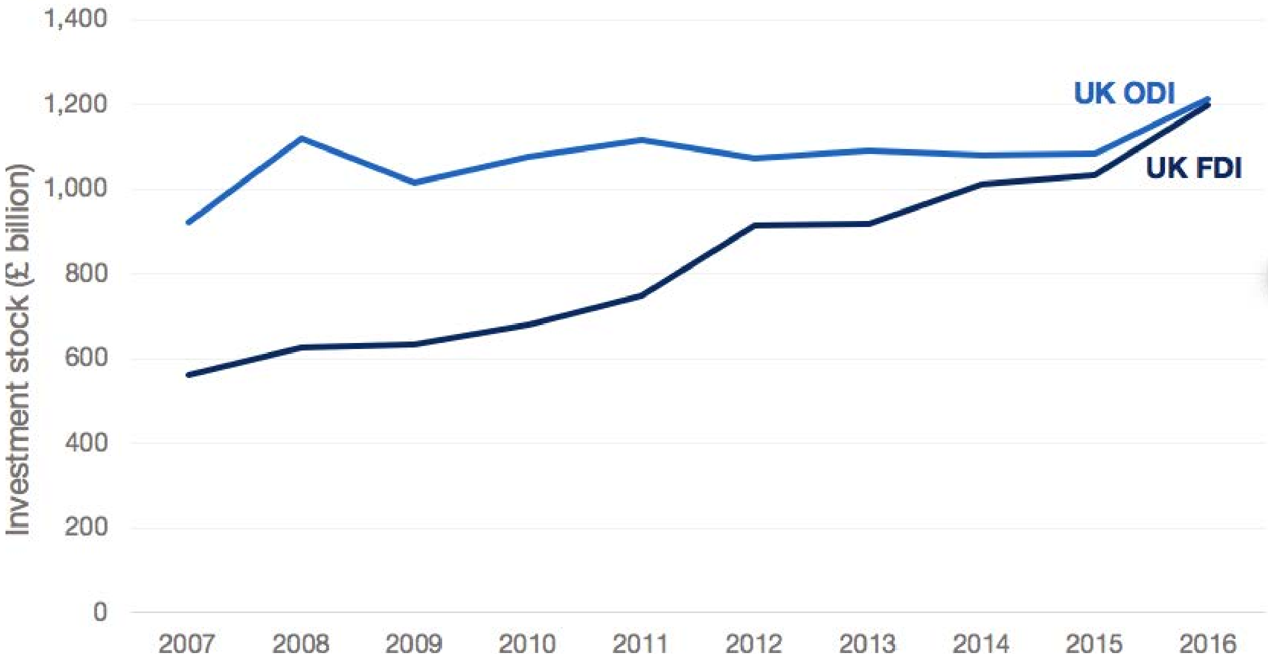
- Reducing costs – Regulatory alignment and transparency can reduce the 'compliance costs' associated with meeting regulatory requirements of a trading partner's regime to enable trade in services.

18. See for example: Guillin (2013); Lamprecht and Miroudot (2018)
19. Ciuriak, Xiao, & Dadkhah (2017)

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership and investment

The UK is both a major destination and source of overseas direct investment. The value of the total stock of (inward) Foreign Direct Investment (FDI) in the UK has been rising noticeably over recent years, from under £600 billion in 2007 to around £1.2 trillion in 2016 (latest available data). The value of the UK's stock of outward direct investment (ODI) has been more stable over the last decade and was also around £1.2 trillion in 2016.

Figure 7: Stock of Foreign Direct Investment to and from the UK (2007 – 2016)



Investment between countries generates many economic benefits. It leads to a more competitive business environment, which in turn creates jobs, increases innovation and generates economic spill-overs to the rest of the economy.[20] There is also evidence of links between trade and investment.[21]

Despite the benefits, global investment can be unnecessarily restricted by host government measures. Modern Free Trade Agreements (FTAs) therefore increasingly include provisions relating to investment, including investment by establishing a commercial presence abroad. FTAs can seek to create a level playing field between domestic and foreign investors by prohibiting discrimination, market access barriers, and measures that could unduly distort investment flows. FTAs can also seek to increase certainty for investors by providing them with protections against arbitrary or manifestly unfair treatment. Addressing risk and uncertainty is particularly important for companies that may incur significant "sunk" costs[22] when they invest. The right of governments to regulate in the public interest is recognised in investment chapters in FTAs.

There is evidence that FTAs can increase certain forms of investment.[23] This depends on the specific provisions within the agreement and the economies involved. [24]

20. See for example: technology transfers from investment in R&D-intensive countries (Van Pottelsberghe and Luchtenberg, 2001), positive impact on economic growth (Szkorupova, 2014), increase on employment, productivity and competitiveness (HMG, 2014), R&D (Lin and Yeh, 2005)

21. OECD http://www.oecd.org/fr/echanges/stats-echanges/trade-investment-gvc.htm

22. A sunk cost is a cost that once a business pays can no longer be recovered by any means.

23. For example, vertical foreign direct investment: Osnago et al., 2015

24. See for example: Lejarraga and Bruhn, 2017, Velde and Bezemer, 2006, Büthe and Milner, 2014, Kim, Lee and Tay, 2017, Kohl, Brakman and Garretsen, 2016, and Berger et al., 2013.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership and productivity

"Productivity" is defined as the amount of output that an individual, firm, sector or economy can produce from a given level of inputs. Productivity growth is the single largest determinant of living standards and one of the principal determinants of long-run economic growth.

Theory suggests that openness to trade and investment may be an important driver of productivity growth. Trade liberalisation can result in a more efficient allocation of resources in the economy. It can shift the pattern of production in each country towards products and services in which the country has a comparative advantage. In doing so the price of goods and services across the economy can fall, benefiting consumers.

Greater opportunities to sell overseas should reward the most productive firms, allowing them to expand and attract investment, while competition encourages less productive firms to innovate and adapt. Competition can also provide companies with the incentive to invest in the skills of their workers, adopt better management practice and innovate in their use of capital, raising the productivity of firms and the workforce.

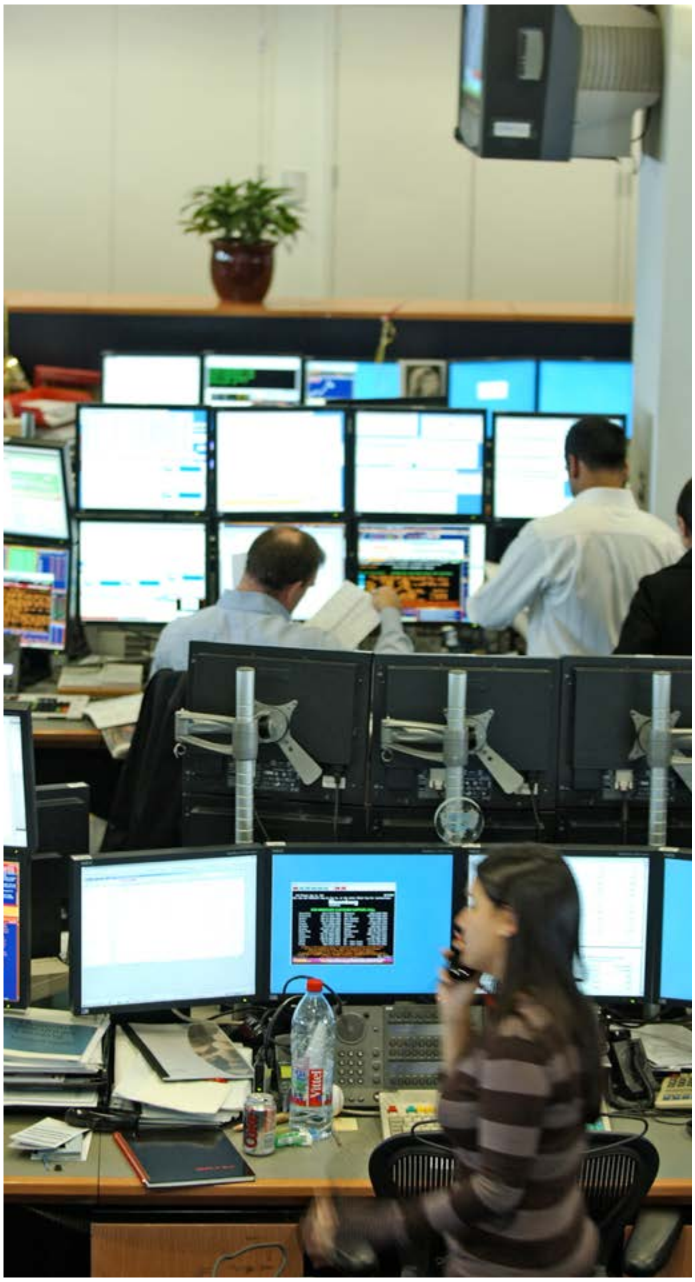
Empirical evidence seems to support this. The OECD estimates that a 10 per cent increase in openness to trade is associated with a 4 per cent increase in income per head.[25]

For the UK, potential accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) could mean greater integration of our global value chains in the Asia-Pacific region. Evidence suggests that greater participation in global value chains can increase productivity through increased access to a variety of inputs, and knowledge spill-overs. This is over and beyond the benefits from bilateral trade agreements.[26]

The available literature tends to find that CPTPP membership leads to GDP gains in all member countries. The magnitude of estimated GDP or real income gains for different member countries varies substantially across studies and are highly sensitive to assumptions regarding the extent to which CPTPP reduces or removes non-tariff barriers to trade.

For example, one recent study quantifying the impact of the CPTPP agreement estimated that GDP in all member countries would increase in the long run. Estimates in this study ranged from between an increase of 0.007 per cent in Chile to 0.37 per cent and 0.48 per cent in New Zealand and Vietnam respectively.[27] Another recent study estimated that the CPTPP agreement would lead to real income gains for all members with magnitudes ranging from an increase of 0.5 per cent of GDP for Australia to 3.1 per cent in Malaysia.[28]

Estimates of the impact of CPTPP's role in generating international cooperation in developing future trade rules are not generally included in the literature. Some authors speculate that these may prove to be the most valuable contribution in the long-run.[29]



25. OECD. Sources of Economic Growth in OECD Countries (2003)
26. Criscuolo et al. (2016)
27. Ciuriak, Xiao, & Dadkhah (2017)
28. Petri et al. (2017). The difference between 'real income' and 'real GDP' is due to the impact of the agreement on relative prices. Some studies report changes in real income while some report changes in real GDP.
29. See for example: Petri and Plummer (2016)

Impacts: How different groups might be affected by UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership

UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), just like other Free Trade Agreements (FTAs), would be expected to boost overall trade, investment and productivity. As with other agreements, UK accession could have different impacts on groups within society, such as businesses, consumers or workers.

Potential impacts of UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership for businesses

FTAs such as UK accession to CPTPP could generate a range of opportunities and challenges for businesses. Accession could provide greater market access for existing exporters, increase the number of companies that export, and provide increased access to more imported inputs.

- FTAs can help businesses by expanding the size of the market into which they export. As well as increasing turnover, this can allow businesses to benefit from economies of scale, lowering their operating costs and raising profitability. This can help them attract investment and expand further.

- By reducing barriers on imports, FTAs can reduce costs and expand the choice of imported inputs for businesses. This can help to raise the competitiveness of businesses.

- Where they include investment provisions, FTAs can help to foster a favourable investment environment and provide a level playing field. This can help businesses to invest overseas more easily and attract investment from partners abroad.

- Where FTAs reduce the fixed costs of exporting, they are likely to provide particular benefits for small and medium-sized enterprises. This can raise the number of smaller firms which find it profitable to export, helping to spur innovation and increase productivity. The CPTPP agreement includes a chapter on small and medium sized enterprises aimed at improving access to online platforms and to make regulations simpler and easier to meet.

- The evidence shows that increased competition from trade promotes business innovation and growth. Some sectors may expand, creating more jobs and prosperity but some sectors or companies, which fail to adjust to such competition, can be adversely affected.

Administrative benefits and costs for businesses

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) agreement, like the majority of Free Trade Agreements (FTAs) includes customs provisions.[30] Where these provisions address bottlenecks and streamline customs procedures, they can reduce the administrative or procedural costs faced by businesses when exporting and importing.

As with any economic policy, it can take time and effort for businesses to familiarise themselves with the changes. Businesses will incur some costs as they learn how to take advantage of the new commercial opportunities. FTAs can also generate additional administrative or compliance costs associated with meeting the requirements of rules of origin. Agreements can be designed in a simple and transparent manner to minimise the familiarisation costs and administrative burden caused by rules of origin.

30. Hoffman et al. (2017)

Potential impacts of a UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership for consumers

At the heart of trade liberalisation is the expected benefit for consumers. Free Trade Agreements (FTAs), like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), can directly benefit consumers in two ways:

1) Increases in product quality, variety and consumer choice. Lowering trade costs between countries raises the probability that businesses will find it profitable to trade. This increases the number of firms that trade, and the variety of products traded.

2) Welfare gains from lower prices for existing products. Reducing barriers on consumer goods and the regulatory barriers affecting cross-border trade in services can generate lower prices for consumers.

In addition, FTAs often benefit consumers indirectly through an impact on domestically produced goods. They can stimulate competition, resulting in lower prices for consumers. Domestic firms also benefit from improved choice, quality and lower prices of their intermediate inputs, which may be passed on to consumers in the form of lower prices.

CPTPP has provisions that could affect consumers, including those related to competition policy, consumer protections, sanitary and phytosanitary standards, technical barriers to trade and e-commerce. Consumers may regard the impact of these provisions to be positive or negative depending on their individual perspectives and priorities.

Economic evidence suggests that FTAs signed by developed nations such as the EU and US have indeed reduced consumer prices for their consumers and have increased the average quality of imported products.[31]

As set out in the White Paper "Preparing for our future UK trade policy", the UK Government is committed to maintaining high standards of consumer protection for its citizens.

Potential impacts of a UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership for workers

Just as Free Trade Agreements (FTAs) like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) present opportunities and challenges for businesses, they also generate opportunities and challenges for the workers of those businesses. They can also affect the dynamism of the labour market more widely.

Workers can benefit from FTAs through a variety of channels;

- Where FTAs boost productivity within firms and sectors, and across the economy more widely, this is likely to generate increases in the employment opportunities and real wages of workers.

- Where FTAs lower consumer prices, this is likely to benefit workers in the form of higher real wages, meaning that they can purchase more even at the same wage.

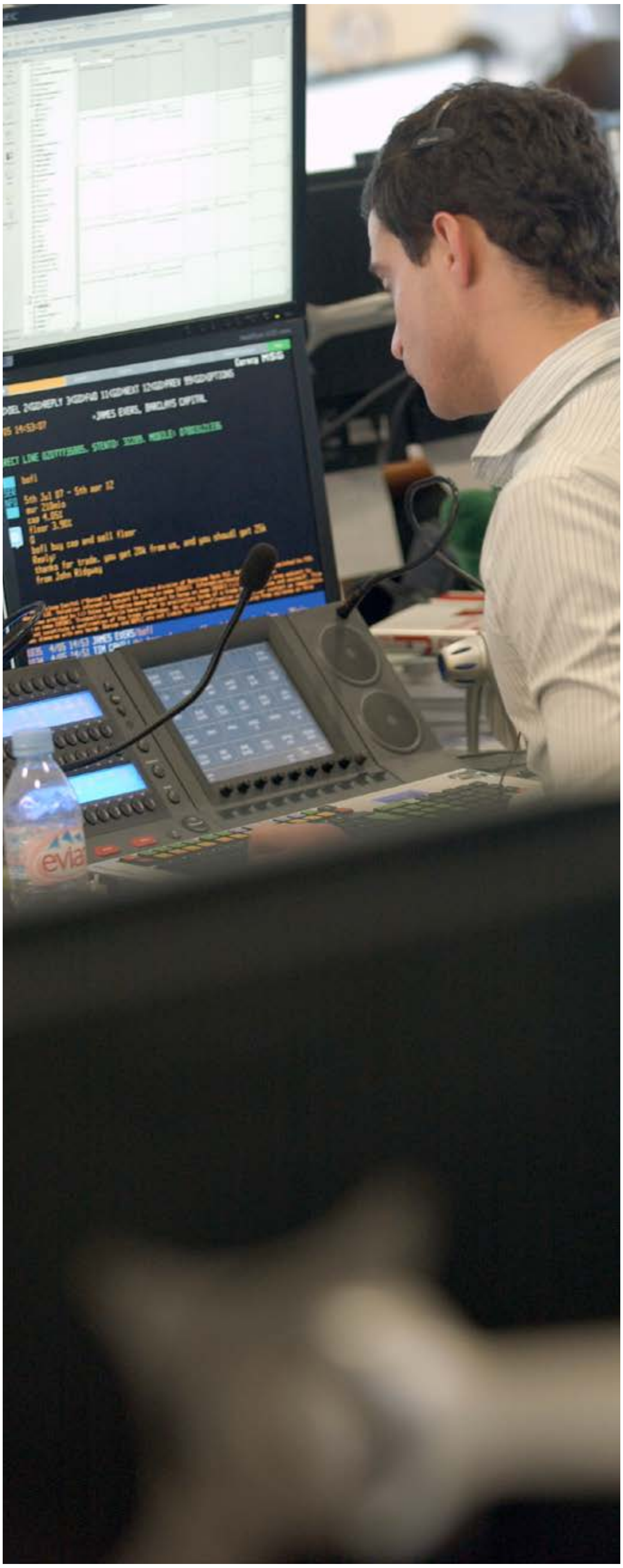
Economic evidence shows that, on average, trade has benefited workers through increasing employment levels over the longer-term[32] and FTAs have had a positive impact on average real wages.[33]

Trade liberalisation can affect the structure of the economy over time. Workers may move between jobs and sectors, as changes in the pattern of trade leads to some sectors expanding and some sectors declining. Evidence shows that the UK has one of the most dynamic and flexible labour markets in the world, which helps to facilitate adjustment and reduce transitional costs for workers.[34]

Modern, dynamic economies are continually reshaping in line with global developments which drive a continual process of worker and job transition in the labour market. It is possible that lower barriers and greater import competition resulting from an FTA could accelerate this ongoing process.

Recent studies of CPTPP do not include estimates of the impact on wages or labour market churn. However, a 2016 study of the Trans-Pacific Partnership (TPP12) before the announcement of the US withdrawal from the agreement, found that the TPP12 agreement could increase average wages in the US by around 0.53 per cent relative to levels in the absence of the agreement.[35] The study estimated that the resulting structural shifts of workers in the US economy during the implementation of the agreement would result in an addition to annual labour market churn of less than 0.1 per cent.

31. See for example: USITC (2016), Cernat et al. (2018) and Breinlich et al. (2016).
32. See for example: ILO (2016).
33. See for example: Caliendo and Parro (2015) and Trefler (2006).
34. For example, the UK is rated as having the 5th most efficient labour market in the world in the World Economic Forum's Global Competitiveness Report, 2016-17, behind only Switzerland, Singapore, Hong Kong and the United States.
35. Petri and Plummer (2016)



Potential wider social impacts of UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership

As described above, Free Trade Agreements (FTAs) can affect employment prospects, wages and wider working conditions in specific sectors or for specific professions or skill levels.

The characteristics of workers can sometimes differ across sectors, professions and skill levels. It is therefore possible that that these changes could affect various social groups differently and influence the distribution of income.

The regional location of workers in different sectors and professions may also vary. This means that different areas or regions within a country may be affected differently if the UK were to potentially accede to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Government will assess the potential impacts on different groups in more detailed studies before and after negotiations take place with partner countries.

Potential impacts of UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership on the environment

All economic activity, including trade, has the potential to impact positively or negatively on the environment.

The indirect impacts on the environment may occur as enhanced trade induces the economy to grow (a ‘scale’ effect affecting pollution for example) and as economic activity shifts between sectors with different levels of emissions (a ‘composition’ effect). Free Trade Agreements (FTAs) can also positively impact the environment as increased trade leads to the transfer of new, potentially more environmentally friendly, technologies and production methods (a ‘technique’ effect).

The impact of FTAs on the environment will depend upon the design of an agreement and the economies of the countries involved. As set out in the 2017 White Paper “Preparing for our future UK trade policy”, the UK Government is committed to maintaining high standards of environmental protection in trade agreements. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership includes a chapter with enforceable rules relating to the environment. The Government will assess the potential environmental impacts in more detailed studies prior to UK accession.

Conclusion from analysis

The international evidence shows that Free Trade Agreements, like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), have the potential to deliver substantial economic benefits to an economy, including increased trade, investment and productivity.

The available evidence suggests that CPTPP is a relatively deep and comprehensive agreement which is likely to generate positive economic impacts for its members. The gains are likely to grow as membership of the agreement increases.

Potential UK accession to CPTPP may therefore represent an opportunity to deepen the UK's trade and investment relationship with the existing and prospective members in the wider Asia Pacific region.

The international evidence also suggests that Free Trade Agreements, like CPTPP, generate a range of opportunities and challenges. This consultation will inform an evidence-based approach to decision-making and inform future assessments of the eventual impacts of UK accession to CPTPP should the UK decide to pursue membership.

The UK Government has committed to publishing scoping assessments before entering into trade agreement negotiations, and to publishing an impact assessment later in the process, at an appropriate time

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The UK's Department for International Trade (DIT) has overall responsibility for promoting UK trade across the world and attracting foreign investment to our economy. We are a specialised government body with responsibility for negotiating international trade policy, supporting business, as well as delivering an outward-looking trade diplomacy strategy.

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