

# The CPTPP countdown is on: Canada and Australia ratify, bringing the Agreement into force at the end of 2018

October 31, 2018

The Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), an ambitious free trade agreement involving 11 countries representing 13.5 per cent of global GDP, will come into force in two months from now, on December 30, 2018. The CPTPP will bring market access benefits for Canadian business to key Pacific Rim economies that have ratified the agreement, including Japan, Mexico, Australia, New Zealand and Singapore. Canada already has free a trade agreement with Mexico (NAFTA), however, the CPTPP will bring additional trade benefits and options with Mexico going forward.

As agreed by the remaining 11 parties after the United States withdrew from the Trans-Pacific Partnership agreement, the slightly modified and renamed CPTPP will enter into force 60 days after six of the parties have ratified it. On October 31, 2018, Australia submitted its notice of ratification, triggering the 60-day countdown. Canada became the fifth country to ratify CPTPP just a few days earlier after Parliament adopted implementing legislation. The CPTPP will come into force separately for the other signatories — Vietnam, Malaysia, Chile, Peru and Brunei — when they ratify.

## **Free Trade with Japan**

The CPTPP gives Canada a strong push toward diversifying its trade relationships, by opening up key Asian markets. In particular, Canada will have a free trade agreement with Japan, the world's third largest economy by GDP. Japan is currently Canada's fourth largest trading partner and enhancing that relationship was a key objective for Canadian negotiators. CPTPP gives Canadian business a leg up on US competitors at a time when the US is only just starting free trade discussions with Japan. CPTPP will create opportunities to Canadian companies in a broad range of sectors, such as industrial products (including aluminum, iron and steel), forest products and value-added wood products, and food and agricultural products (including wheat and other grains, beef, pork and fish). Canadian companies providing services into Japan will also benefit from commitments on temporary entry of business people and their spouses and improved market access in some sectors, including research and development, professional, transportation and environmental services.

## **Acceleration of Tariff Reductions**

CPTPP party countries had a significant incentive to ratify before November 1, and thereby cause the CPTPP to come into force by the end of 2018, because it effectively accelerates the scheduled tariff reductions under the Agreement.

Upon entry into force on December 30, 2018, an initial round of tariff reductions will occur. That initial reduction will be followed by a progressive elimination schedule beginning in “Year 2”, that is, the year after the year in which the agreement comes into force. For all ratifying parties except Japan, the first subsequent tariff reductions will therefore occur on January 1, 2019 (two days after the coming into force date). Japan’s second reduction will occur on April 1, 2019. Annual tariff reductions will continue for 15 years on January 1 (and April 1 for Japan).

### **Canada-Mexico Trade Relations**

Upon the coming into force of the CPTPP, Canada-Mexico trade relations will be governed both by the CPTPP and NAFTA (as long as the NAFTA remains in force), or the USMCA (if and when it enters into force). In other words, Canadian businesses will have the option of choosing the better tariff or market access treatment under the trade agreements in place at a given time. The more favorable option is likely to be the NAFTA/USMCA with respect to tariff preferences, at least in the short term. However, qualification for those tariff preferences will generally be easier under the CPTPP. The CPTPP will be more beneficial in other areas such as government procurement and investor-state dispute settlement, particularly if the USMCA eventually comes into force.

### **What Next?**

In the coming days and weeks we will be publishing more detailed analysis and commentary on specific aspects of the CPTPP. Governments, industries and businesses should carefully consider the potential impact of and opportunities arising from the coming into force of the CPTPP and the Asia-Pacific market. BLG’s [trade lawyers](#) have decades of experience in every aspect of international trade and investment law and have advised extensively on issues surrounding the implementation of free trade agreements.

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