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What Does the Trans-Pacific Partnership Agreement Mean for California Agriculture?

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If it were implemented, the Trans-Pacific Partnership agreement would lower import barriers and facilitate export for many of California's significant agricultural exports to Pacific Rim nations—most importantly in Japan. By modestly improving growth prospects, it would also help create larger markets in developing countries—most importantly Vietnam.

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Almost a decade after the idea was raised and after years of intense negotiation, on October 5, 2015, representatives of 12 countries around the Pacific Rim reached an agreement, called the Trans-Pacific Partnership (TPP), which would establish more open access for trade and related measures among the members. The agreement, details of which are not yet public, still has a long and politically uncertain path to implementation, given that it must be accepted in the United States Congress and the other countries before it can come into force.

Nonetheless, it is useful to take an early look at what the agreement might mean for California agriculture, recognizing that any impacts are likely to begin in a few years, and full implementation would be phased-in over more than a decade after that.

What Is the TPP?

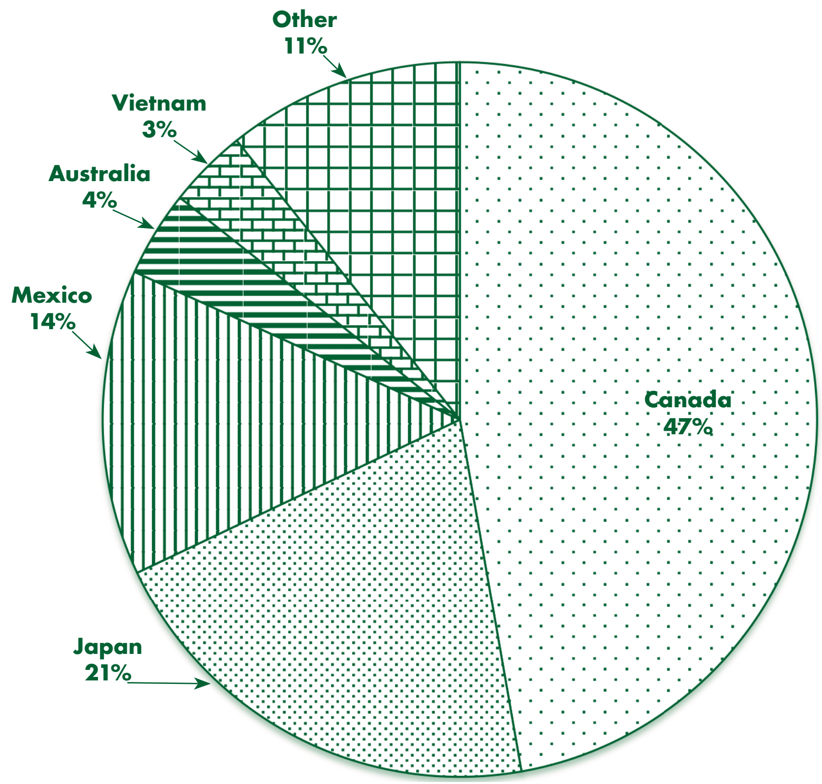
The TPP involves the United States and 11 other Pacific Rim nations: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. This list includes several major U.S. trading partners, especially Canada, Japan, and Mexico. It also includes some very small, already open economies such as Brunei and Singapore, and many small to moderate sized markets. The TPP countries, including the United States, comprise about 40% of world GDP.

While the agreement includes some major trading partners, two important features of trade reduce the overall impact of this Free Trade Agreement (FTA) on increasing U.S. trade in the Pacific region. First, several large countries and some major trading partners are not included in the agreement. In particular, China is not on the list of TPP countries, but neither are the large developing countries of Indonesia, the Philippines, or Thailand. South Korea is the other large economy omitted, but this matters less to U.S. access because the United States already has a FTA with Korea, as it does with other non-TPP Pacific Rim countries such as Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

Second, the United States already has FTAs with several of the most important proposed TPP members. NAFTA covers Mexico and Canada. Other FTAs cover Australia, Chile, Peru, and Singapore. Indeed, many TPP members have FTAs with other members so the amount of effective market opening is less than might first appear.

With these patterns of who is in and out, the big prize is Japan but the economies of Vietnam and Malaysia also hold potential, especially as their markets develop. Vietnam has a population of about 90 million people, but per capita income of only about

Figure 1. Share of California Agricultural Exports of Principle Commodities Among TPP Member Countries, Average 2012–2013



Source: Authors' calculations using data published by UC Agricultural Issues Center (http://aic.ucdavis.edu/pub/exports.html)

Note: California agricultural exports of principal commodities to TPP member countries averaged about $7.1 billion for 2012 and 2013. This amount represents about 40% of California's agricultural exports of principal commodities.

$1,100. Among the additional countries that do not now have U.S. FTAs, with about 31 million people and per capita income of about $7,500, Malaysia has potential for significant added imports with economic development.

Because expanding trade opportunities often means competing with other exporters, it is also useful to consider current trade agreements among TPP countries to which the United States is not a party. Australia, which competes with California in many farm products, has agreements with Japan and Malaysia, in addition to those countries with which the United States has agreements. Mexico also has an FTA with Japan. Finally, Japan has FTAs with Malaysia and Vietnam, although Japan has maintained high levels of protection for its most politically sensitive agricultural markets in its existing FTAs (and in the proposed TPP).

The TPP agreement covers much of total trade in goods and services. As with prior free trade agreements, the headline remains removal of thousands of tariffs—taxes on imports into one member country from another. The U.S. Trade Representative estimates that the TPP will eliminate 18,000 such tariffs. Many of those will be removed immediately upon implementation of the agreement while many more will be gradually reduced to zero over phase-out periods of as much as 20 years.

Opening trade in services may be a significant benefit to the United States, which has had strong positions in legal, insurance, financial, engineering, and other services. The agreement also includes sections dealing with labor standards and environmental standards that claim to encourage trade partners to improve protection in their economies, and especially for products and services eligible for TPP benefits. It is not yet clear how these parts of the agreement can be fully monitored or enforced within sovereign nations. It is also unclear without more details if such enforceable features may actually reduce the benefits of the agreement that arise from freer trade among countries, for example, with very different wage rates. The potential for disputes in these complex areas seems particularly acute.

In addition to reducing tariffs, the agreement includes elimination of export subsidies, which are mostly gone already. The TPP also limits the use of export restrictions in times of high prices, increases scrutiny of state trading enterprises, and furthers the application of transparent science to food safety, animal health, and plant health measures. These are all important components of recent trade agreements and generally facilitate an open trading system.

Opening international trade among TPP countries has three benefits for California agriculture, in addition to expanding export access. First, better access to imports from TPP countries means slightly more income for U.S. consumers and, therefore, more demand for California farm products. Second, freer trade generally means more economic growth and expanded markets at home and in other markets. Third, freer trade generally means more political and economic stability, which is also critical for growth and import potential. California agriculture will benefit from stability in the Pacific Rim markets.

The next step for the TPP is preparation for a vote in the U.S. Congress and similar steps of political acceptance in the other partner countries. In the United States, after details are released, legislative language must be drafted under which Congress either accepts or rejects the deal. No amendments are open before the vote in Congress for the simple reason that if the United States were to unilaterally change a provision, they would need to renegotiate the whole agreement with all 11 other members. And, of course, all 11 other members would also expect the right to unilaterally revise the deal and thus no actual agreement would ever be possible.

If Congress rejects the agreement, the United States would not be a member of the TPP and it is not clear if the agreement would continue among the other members or not. The vote of the U.S. Congress is not scheduled for any time soon, and it is unlikely to be brought up for a vote unless the Administration and Congressional leadership expect that they have the votes for passage.

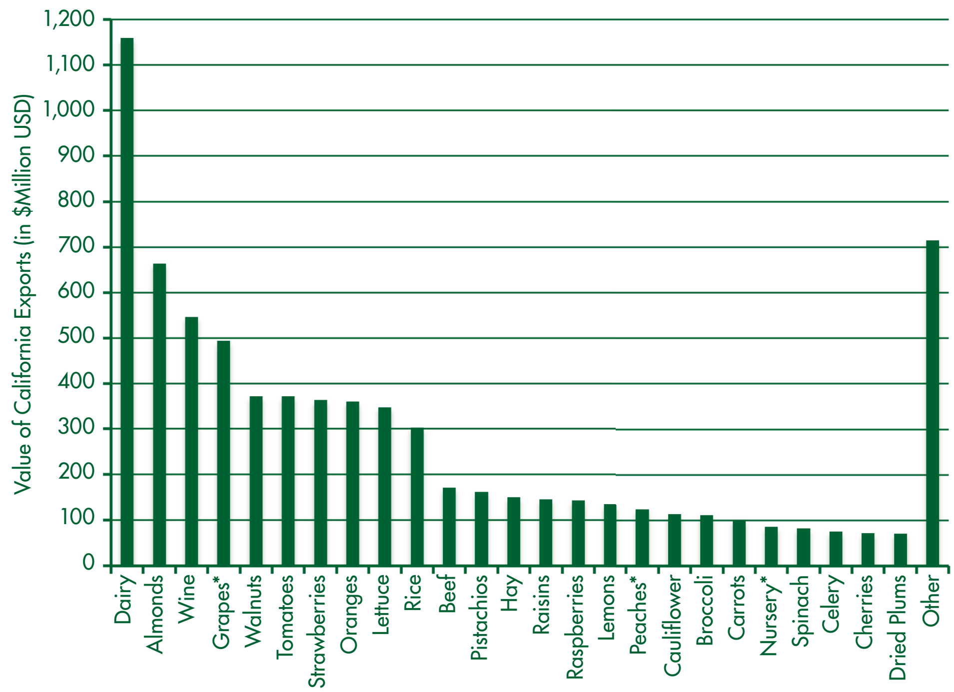
California Agricultural Exports to the TPP Countries

USDA reports shipments of about 42% of U.S. agricultural exports to the TPP member markets. The Pacific Rim is the most important region for California agricultural exports, and the TPP countries are themselves important. Recent data from the UC Agricultural Issue Center indicate shipments of about 40% of California agricultural exports to TPP countries, with about 72% of that total shipped to the big three—Canada, Japan, and Mexico (Figure 1). Japan is clearly the big market for which free trade is not already operative.

Figure 1 shows the distribution across the TPP members. The United States already has an FTA with Australia, the fourth largest TPP market, so Vietnam is fifth in terms of the current market size of those countries for which trade barriers will be declining due to TPP. The other markets, which now account for about 11% of TPP imports, have the potential for growth as economic development continues, especially Malaysia.

Figure 2 shows the commodity distribution of California agricultural exports to TPP markets in 2013. Dairy tops the list with more than $1.1 billion in exports. This represents about 46% of California dairy exports in that year. Almond exports, which are the number one California export commodity globally, are widely diversified across markets, but the industry still shipped almonds worth more than $650 million to the TPP countries. Wine and table grapes (worth about $500 million each) were exported to TPP markets. Including raisins, a total of about $1.2 billion in grape and grape products were shipped to the TPP member countries in 2013. About 20 California products, each worth $100 million or more, were shipped to TPP countries in 2013.

Figure 2. Value of California Agricultural Exports to TPP Members by Principle Commodity, 2013



Source: Authors' calculations using data published by UC Agricultural Issues Center (http://aic.ucdavis.edu/pub/exports.html)

**Note: Grapes are table grapes, Tomatoes are processed tomatoes, Oranges include orange juice, Beef includes hides and skins, Raspberries include blackberries and loganberries, Peaches includes nectarines, and Nursery includes flowers and potted plants.*

The TPP will also open the U.S. market for agricultural imports. But, in reality, little changes for California agriculture because U.S. borders are already relatively open, especially given prior trade agreements. Moreover, California agriculture is a strong competitive exporter and thus is not vulnerable to challenges of imports from the TPP members that do not already have a FTA with the United States.

Market Opening in the TPP Agreement for Important Agricultural Products

As with many such agreements, the TPP immediately removes tariffs on products for which market potentials are more limited while it has more limited opening or longer phase-in period for products that have larger market potentials. This result is the natural consequence of the political sensitivity of competition with imports. In order to provide some further guidance, we review a few highlights for some important California agricultural commodities where information is available. Table 1 lists some representative tariffs in Japan and Vietnam—large potential markets where tariffs tend to be high.

Table 1. Average Percentage Tariffs for Selected Commodity Groups		
	Japan	Vietnam
Commodity	(Percent)	
Dairy Products*	24.1	12.1
Tree Nuts	5.6	23
Wine	22.5	53.1
Citrus Fruits	11.9	30
Deciduous Fruits		
Grapes	6.8	11.5
Melons	4.7	30
Apples & Pears	8.9	10
Stone Fruit	7.0	16

** For Japan, the tariff applied to cheese.*

Dairy

Dairy market opening, which has the potential for large gains for California, an export powerhouse, is actually quite limited in the TPP. Canada and Japan both resisted significant market opening and maintained their tariff rate quotas that limit most dairy imports to maximum quantities on a product-by-product basis. New Zealand and Australia pushed for more access but had limited success. The United States accepted only slight improvements in access, in part because much of the dairy industry in the eastern states continues to express concerns about imports into the United States rather than recognize that the United States is a major commercial dairy exporter, especially from California.

Gradual elimination of the 24% cheese tariff and gradual expansion of quantitative limits for other products in Japan are the major import access improvements for dairy. The potential for export growth in Vietnam, which has a 12% average tariff on dairy products, may also become important as their economy develops.

Almonds and other tree nuts

Japan, Malaysia, and Vietnam will eliminate tariffs for tree nuts. The current tariff into Japan is only 5.6%, but the Vietnam tariff is 23%.

Wine

The TPP markets could expand for wine as the tariffs tend to be high—for example, 22.5% in Japan and more than 50% in Vietnam. The market in Vietnam will be small for some years as per capita income remains low, but has the potential for long-term growth. The California wine industry sees the importance of access at least as good as competitors from other TPP countries and Europe.

Citrus Fruit

According to the USDA, the TPP will eliminate tariffs for citrus fruit in Japan, Malaysia, and Vietnam. Despite an average tariff of about 12%, Japan, with imports of about $170 million in 2013, is the second largest market for California citrus exports after Canada. Malaysian buyers added another $24 million to California citrus exports.

Deciduous Fruit

Tariffs for deciduous fruit tend to be moderate into Japan, but it is a large market, accounting for 11% of California exports or about $186 million in 2013. The potential for expansion in Vietnam and Malaysia may be substantial when economic growth occurs because those countries cannot efficiently compete in the production of these fruits, and their consumers will begin to demand variety. Competition from New Zealand, Australia, and Chile will be substantial, so low tariff access that is equal to these competitors is important.

Other products

California agriculture is in a position to take advantage of its Pacific ports to export beef, poultry products, hay, and vegetables as markets open further along the Pacific Rim. Japan is already a large market for many of these products and will eliminate high tariffs such as the 38.5% tariff on beef.

Final Remarks

The TPP agreement is significant in scope, involving a substantial portion of world trade and its breadth across rich and poor countries, but its impacts for the U.S. economy will be moderate at best. Japan is the only large market included in the TPP for which the United States does not already have an FTA. For example, for dairy, access into Japan will expand only slightly and the Canadian market will remain limited despite NAFTA and now the TPP.

For the long term, the most important influence of the TPP may be that China and other large Asian economies may want to join. Access to China, Indonesia, the Philippines, and Thailand would add substantially to the market for California agricultural exports. Freer trade is good for consumers and efficient producers so California agriculture has little to fear and much to gain as more open markets spread globally.

Sumner, D.A., H. Lee, and W.A. Matthews. 2015. "What Does the Trans-Pacific Partnership Agreement Mean for California Agriculture?" *ARE Update* 19(1):1- 4. University of California Giannini Foundation of Agricultural Economics.

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For additional information, the authors recommend:

Matthews, William A., Daniel A. Sumner and Nina M. Anderson, "California Agricultural Exports, 2014." University of California Agricultural Issues Center, http://aic.ucdavis.edu.

Foreign Agricultural Service, USDA. "Trans-Pacific Partnership (TPP)." http://www.fas.usda.gov/tpp.