

Trans Pacific Partnership Agreement (TPPA) Opportunities and Challenges

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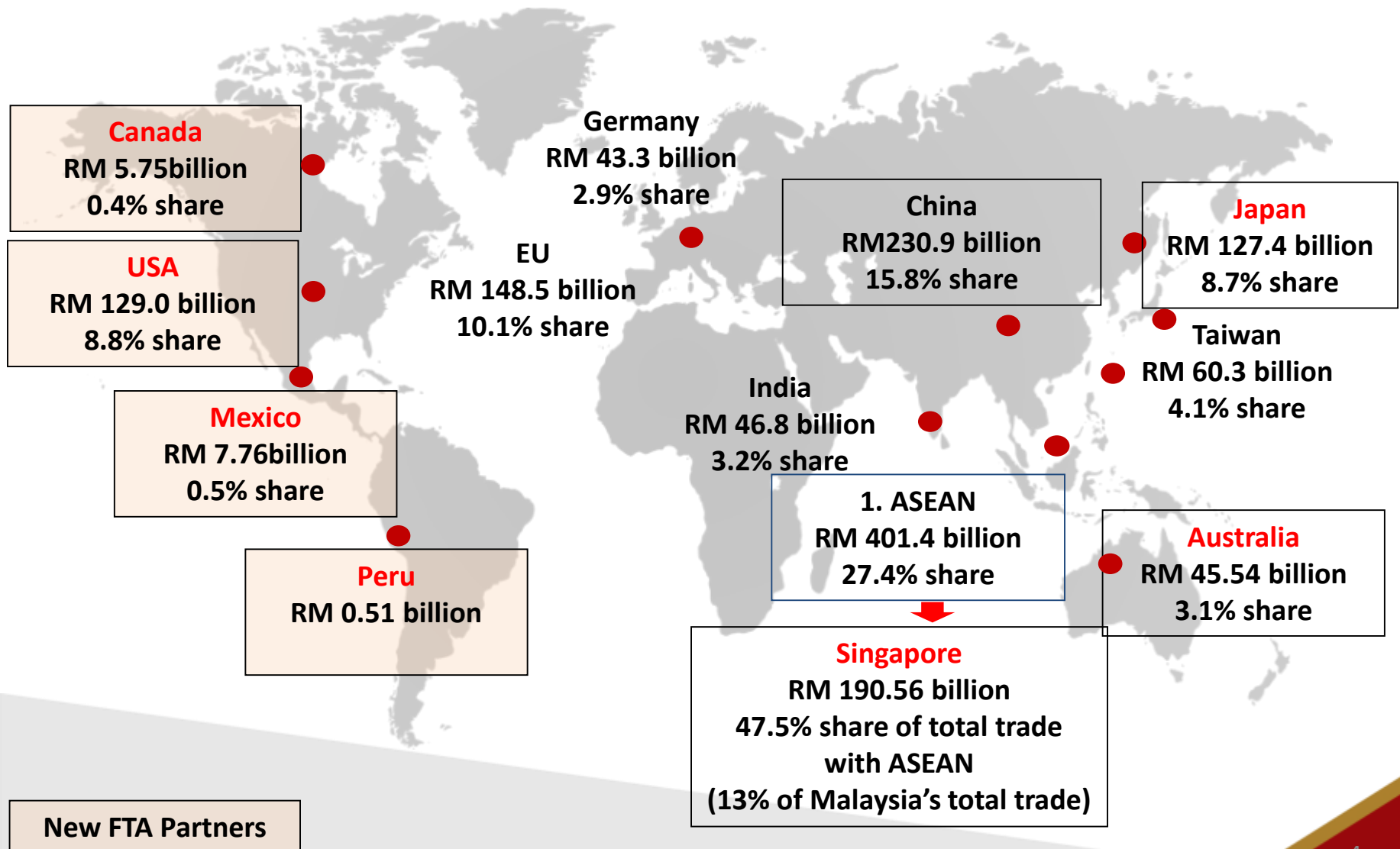
- **The TPPA – the background & status**
- **The Market Access Negotiations**
 - **Opportunities & Challenges**
- **Rules of Origins**
- **Q & A**



TRADE PERFORMANCE 2015

2015	Value (RM bil)	(+/-)
EXPORTS	779.95	+1.9%
IMPORTS	685.65	+0.4%
TOTAL TRADE VALUE	1,465.60	+1.2%

Major Trading Partners 2015



FTAs Developments

To date, Malaysia has established and implemented (**concluded, signed and implemented**):

- **7 bilateral FTAs** : Japan, Pakistan, New Zealand, India, Australia, Chile and Turkey.
- **6 regional FTAs** : China, Korea, Japan, Australia, New Zealand and India.

Concluded but have yet to Sign

- ASEAN-Japan Comprehensive Economic Partnership (AJCEP) Agreement (Services)

Signed but have yet to Implement

- Trans-Pacific Partnership Agreement (TPPA)

FTAs under Negotiations

- i. Malaysia- EU FTA (MEUFTA)
- ii. Malaysia-EFTA Economic Partnership Agreement (MEEPA) – Iceland, Liechtenstein, Norway and Switzerland
- iii. Regional Comprehensive Economic Partnership (RCEP)
- iv. ASEAN-Hong Kong FTA (AHKFTA)

TPPA - Brief Background

- Negotiations concluded on **5 October 2015 (in Atlanta)**
- A **comprehensive FTA** comprising binding rules and disciplines and market access commitments , reflected in **chapter texts, annexes, schedules** and **side letters**.
- **Membership is open to all APEC economies** but can consider non-APEC countries.
- **Current membership:** **Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and US.**
- **Interest shown** by Korea, Taiwan, Indonesia, Thailand and Philippines.
- Widely expected to be a building block towards the wider Free Trade Area of the Asia Pacific.

4 February 2016 – Signing of TPPA

- **Parliament had approved** Malaysia's participation in TPP and this paved the way for Malaysia to sign the TPP in Auckland, New Zealand on **4 February 2016**.



Current Status

- Signing is an **indication that the 12 countries accept the outcome of the negotiations (final texts)** and will start their domestic process to ratify the Agreement in order to bring the Agreement into force.
- Ratification of the TPPA is likely to take place within 2 years after which the Agreement will enter into force (early 2018) for those countries that have ratified the Agreement.

Malaysia's Domestic Process

- Malaysia is taking the necessary steps in order to meet the deadline for ratification.
- Malaysia will amend the relevant laws within the stipulated time in order to be able to ratify and be within the group of countries to implement the TPPA as early as possible.
- Malaysia has already identified the legislations that require amendments and have already actively started consultations on the amendments.

Entry into Force

- 60 days after the date on which all original signatories have notified the Depository in writing of the completion of their applicable domestic procedures (ratification);
- If not all signatories have ratified within 2 years of the date of signature , 60 days after the expiry of this period if at least six of the signatories, which together account for at least 85 per cent of the combined gross domestic product of the original signatories in 2013 have ratified; or
- If both do not take place, 60 days after the date on which at least six of the original signatories, which together account for at least 85 per cent of the combined gross domestic product of the original signatories in 2013, have ratified.

TPP Commission

- Comprising representatives of all parties, responsible for the administration of the Agreement, including review of Agreement; supervise work of all Committees; resolve difference or disputes regarding interpretation or application of Agreement; and issue interpretation of the agreement.

Accession

- Open to any State or separate customs territory that is a member of APEC, and such other State or separate customs territory as the Parties may agree . Parties to decide on accession procedures .

Withdrawal

- Parties may withdraw from this Agreement by providing written notice of withdrawal to the Depositary and the other Parties. Withdrawal shall take effect six months after written notice.

30 Chapters in the TPPA



Standard Legal Chapters

- 1 – Initial Provisions
- 27 – Administrative & Institutional Provisions
- 28 – Dispute Settlement
- 29 - Exceptions
- 30 – Final Provision

Traditional Trade Issues

- 2- Market Access
- 3 – ROOs
- 4 – Textiles and Apparel
- 5 – Customs Administration
- 6 – Trade Remedies
- 7 – Sanitary and Phytosanitary
- 8 – Technical Barriers to Trade
- 9 – Investment
- 10 – Cross Border Services
- 11 – Financial Services
- 12 – Temporary Entry
- 13 – Telecommunications
- 14 – E-Commerce
- 15 – Government Procurement
- 16 – Competition Policy
- 18 – Intellectual Property Rights
- 21 – Cooperation and Capacity Building
- 22 – Competitiveness / Business Facilitation

New Issues

- 17 – Competition (SOE)
- 19 – Labour
- 20 – Environment
- 23 – Development
- 24 – SMEs
- 25 – Regulatory Coherence
- 26 – Transparency and Anti Corruption

How Malaysia negotiates the sensitive issues? By obtaining flexibilities..

- Total carve-out
- Transition period
- Threshold (higher than other parties)
- Non-Conforming Measures – Annexes
- Guided by major policies, especially '*Dasar Bumiputera*'
- State Governments (ie. GP, GLCs, Environment, Land related matters)

Malaysia's Offer -goods

- 85% of tariffs to be eliminated upon entry into force - 65% are already without duties (MFN level)
- Tariffs on sensitive products eliminated over 10-15 years

TPP Partners' Offer -goods

- 90% immediate elimination by US and Canada;
- More than 80% immediate elimination by Mexico and Peru
- Japan – improved offers vs. existing FTAs (agriculture and wood products)

Services

- Opportunities for Malaysian service providers in professional, construction, telecommunication, oil and gas, health, education and financial services

Main Export Items to Enjoy Immediate Import Duty Elimination

Product		Current Import Duty
Electrical & Electronic Products	US	3-5%
	Canada	5-11%
	Mexico	5-15%
	Peru	9%
Rubber Products	US	2.4-14%
	Canada	5-15.5%
	Peru	9%
Palm Oil	Canada	11%
	Mexico	4%
Transport Equipment	US	5%
	Mexico	5-15%
Wood Products <i>including</i> Plywood	Japan	6-10%

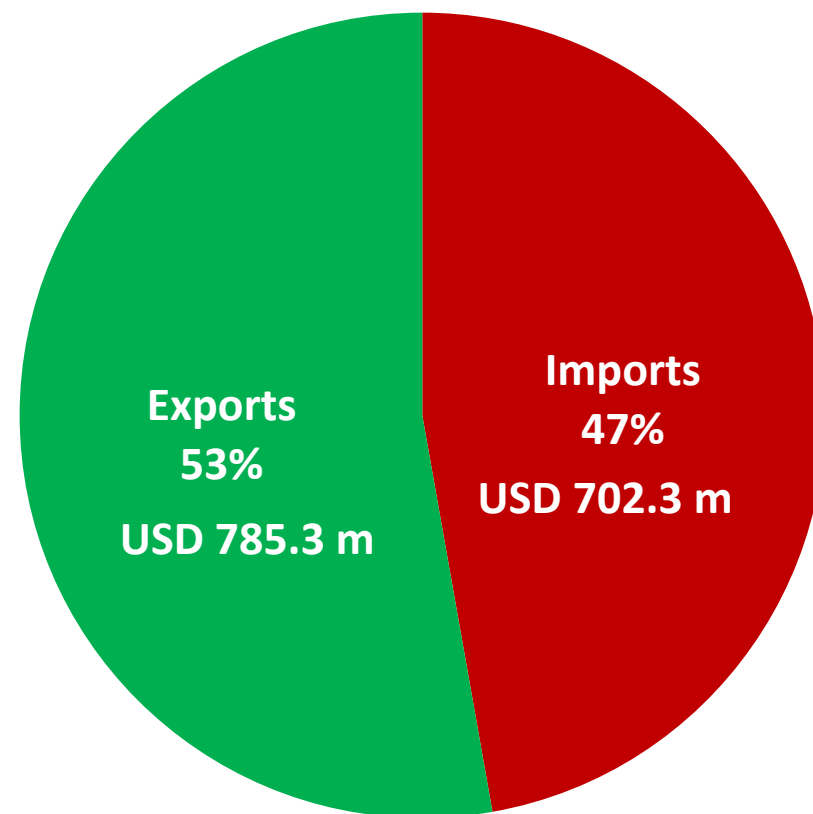
Top Malaysia's Imports

No.	Product	%
1.	Chemical & products	37.5%
2.	Other Agricultures	17.6%
3.	E&E products	11.0%
4.	Machinery & parts	8.9%
5.	Processed food	4.6%

Top Malaysia's Exports

No.	Product	%
1.	E&E Products	33.5%
2.	Rubber Products	10.6%
3.	Wood Products	10.3%
4.	Chemicals & products	8.0%
5.	Processed Food	7.7%

2015 Imports vs. Exports



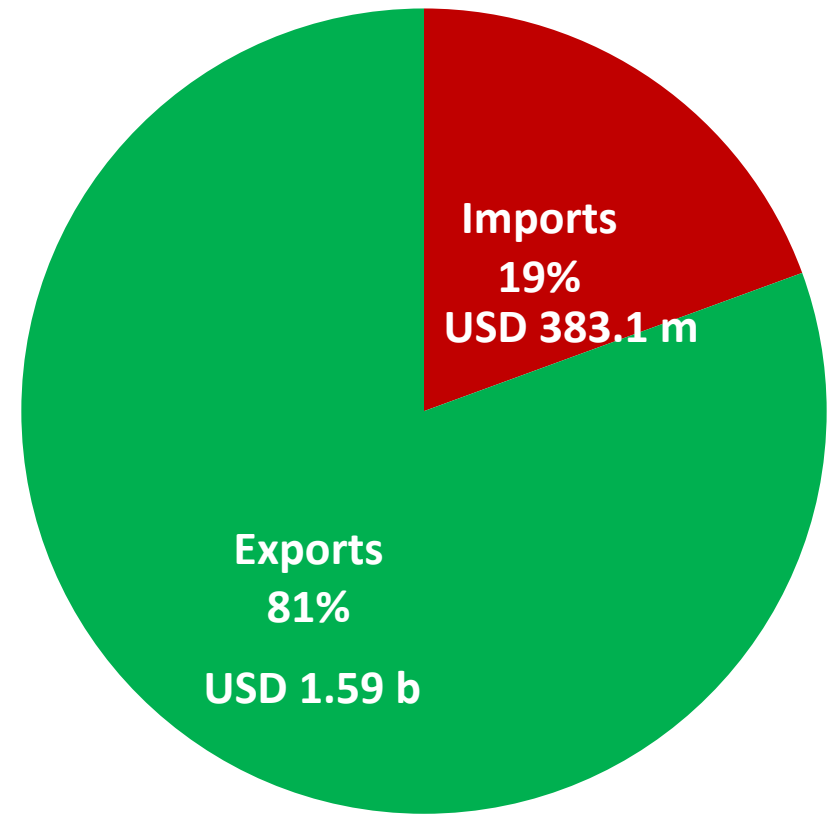
Top Malaysia's Imports

No.	Product	%
1.	E&E Products	61.7%
2.	Petroleum Products	12.4%
3.	Optical & Scientific Equipment	4.9%
4.	Machinery & Parts	3.9%
5.	Manufactures of Metal	3.6%

Top Malaysia's Exports

No.	Product	%
1.	E&E Products	74.9%
2.	Manufactures of Metal	4.2%
3.	Chemical & products	3.4%
4.	Machinery & parts	3.2%
5.	Processed Food	2.4%

2015 Imports vs. Exports



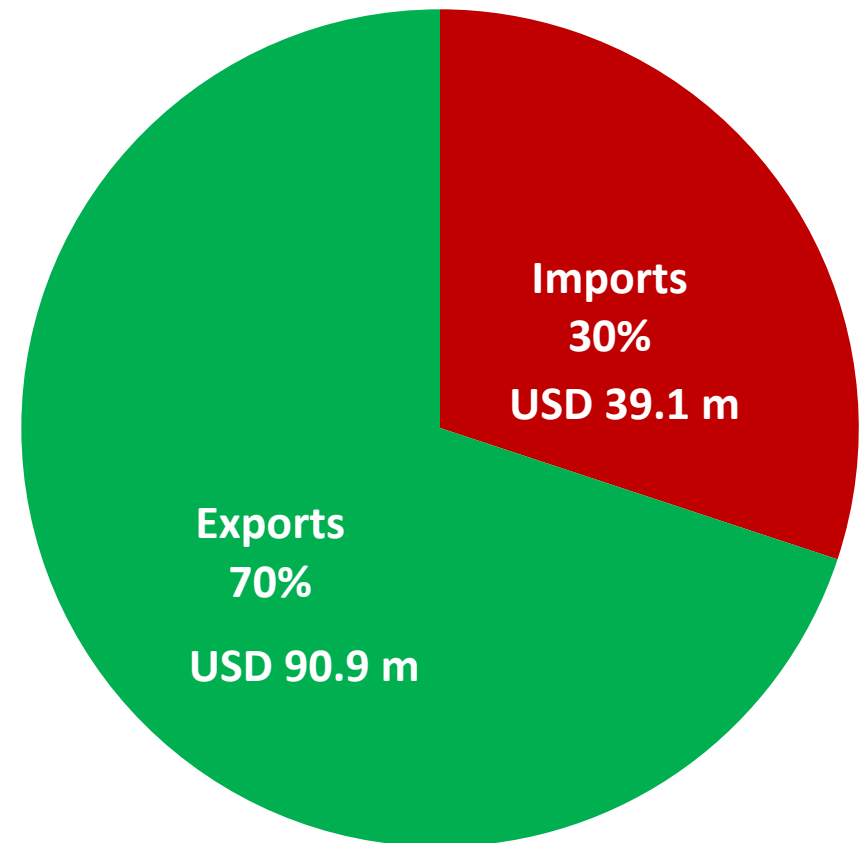
Top Malaysia's Imports

No.	Product	%
1.	Manufactures of Metal	33.2%
2.	Crude Fertilizers & Minerals	25.4%
3.	Metalliferous ores & metal scrap	23.4%
4.	Other agricultures	8.8%
5.	Chemicals & products	3.0%

Top Malaysia's Exports

No.	Product	%
1.	E&E Products	35.9%
2.	Rubber Products	16.4%
3.	Textiles, Clothing & Footwear	8.1%
4.	Processed Food	7.6%
5.	Chemicals & products	6.5%

2015 Imports vs. Exports



United States

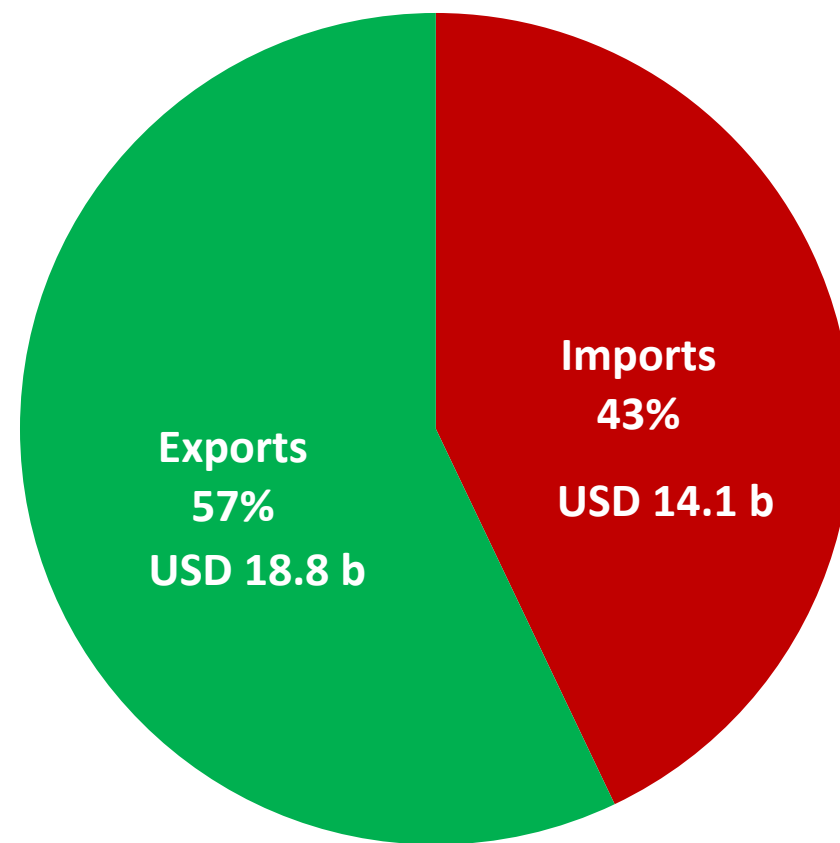
Top Malaysia's Imports

No.	Product	%
1.	E&E Products	46.1%
2.	Chemicals & products	10.3%
3.	Machinery & parts	10.2%
4.	Transport Equipment	7.1%
5.	Optical & Scientific equipment	7.0%

Top Malaysia's Exports

No.	Product	%
1.	E&E Products	57.2%
2.	Rubber Products	7.0%
3.	Optical & Scientific Equipment	5.8%
4.	Wood Products	4.0%
5.	Machinery & parts	3.5%

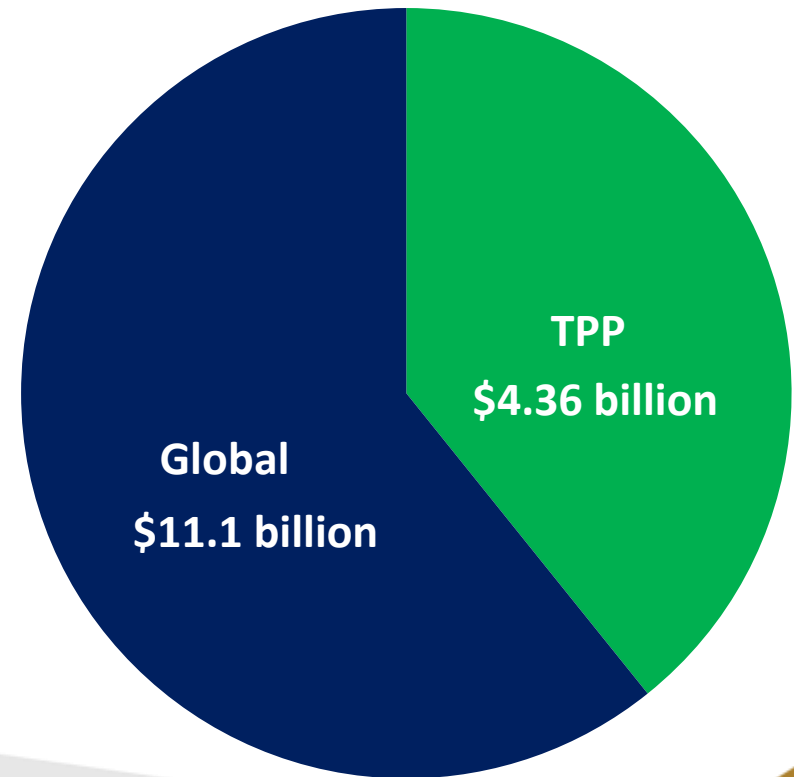
2015 Imports vs. Exports



Exports (2015) of Iron & Steel Products

No.	Exports	Value (USD)
1.	Export to TPP Countries	\$4,357,198,701
2.	Others - Global	\$11,108,527,935

**Iron & Steel Products Exports
(2015)
TPP vs. Global**

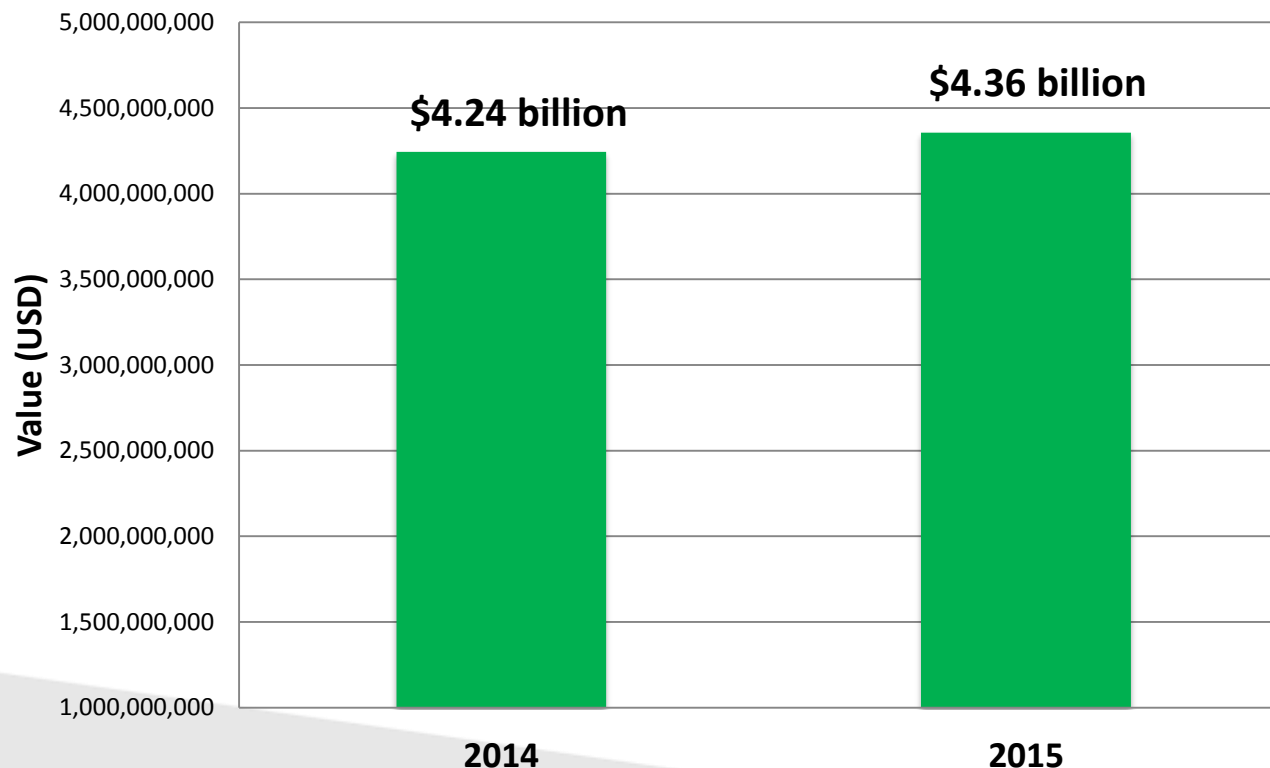


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Export Trend of Iron & Steel Products (TPP Countries)

Exports	2014	2015
Exports to TPP Countries	\$4,243,672,408	\$4,357,198,701



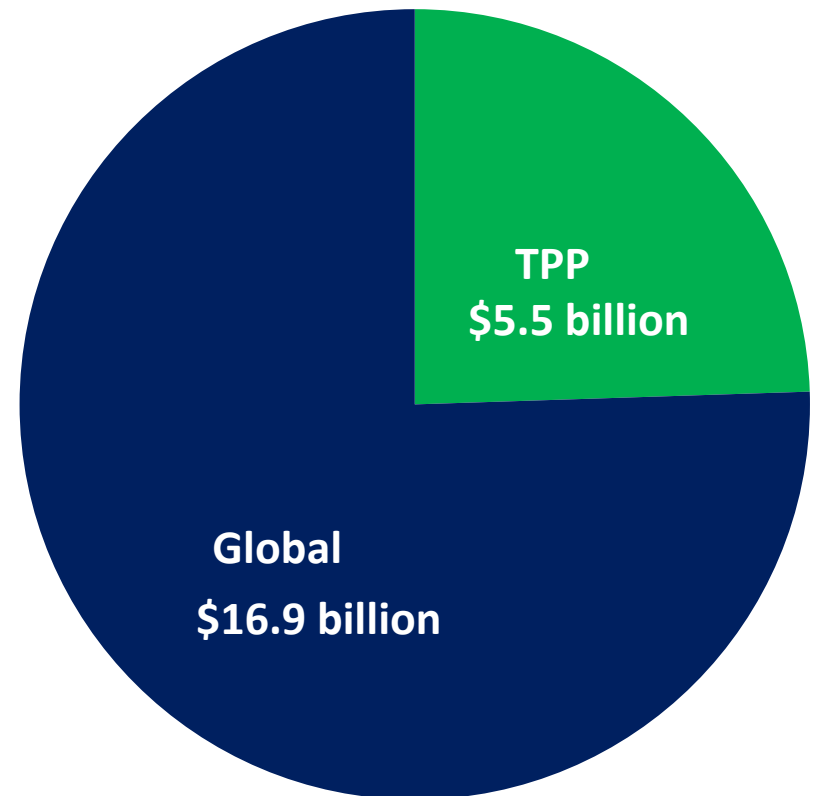
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Imports (2015) of Iron & Steel Products

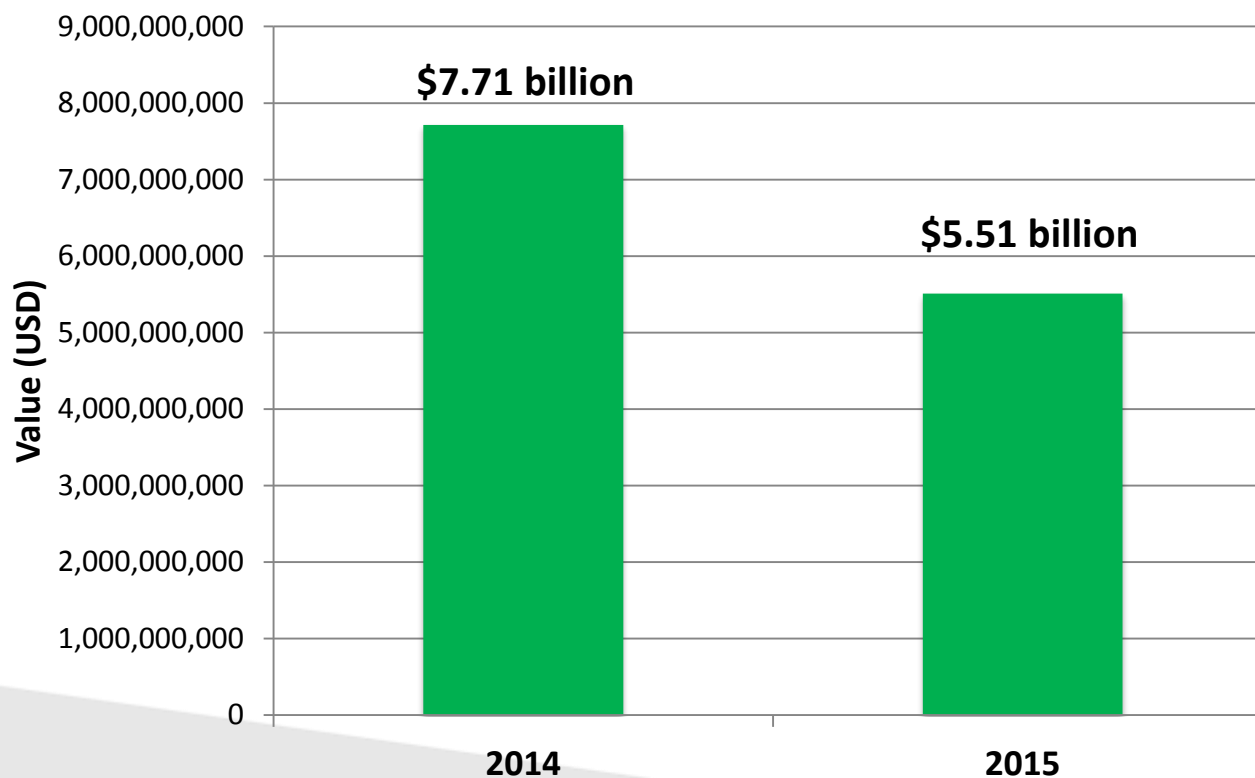
No.	Imports	Value (USD)
1.	Import from TPP Countries	\$5,507,476,484.00
2.	Others - Global	\$16,985,215,406.00

**Iron & Steel Products Imports (2015)
TPP vs. Global**



Import Trend of Iron & Steel Products (TPP Countries)

Imports	2014	2015
Imports from TPP Countries	\$7,714,783,485	\$5,507,476,484



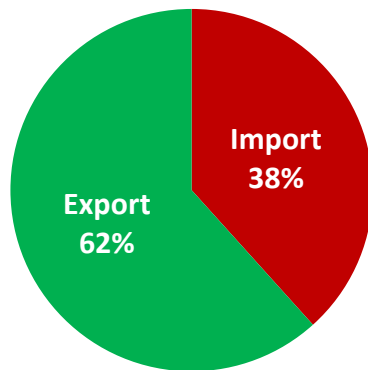
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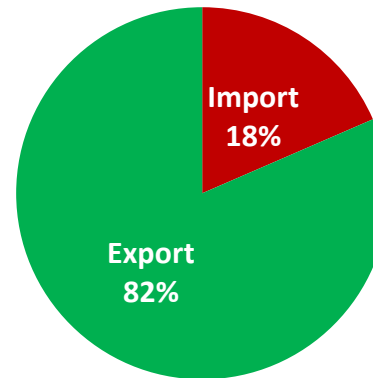
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Imports vs. Exports of Iron & Steel Products

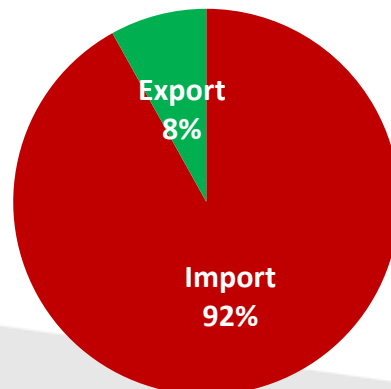
Canada
Imports vs. Exports



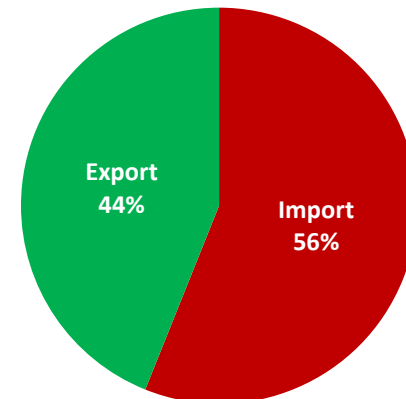
Mexico
Imports vs. Exports



Peru
Imports vs. Exports



USA
Imports vs. Exports



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Summary of Iron and Steel Offers, Chapter 72 - 83

Import Duty	Tariff Rate	Tariff Lines (%)
MFN Zero	0	557 (63.1%)
Immediate Elimination Upon Entry Into Force	2 - 11%	326 (32.9%)
Total		883

Significant Products with Immediate Elimination

Chapter	Description	Tariff Rate
731812	Other wood screw	8%
731814	Self taping screw	6.5%
732620	Articles of iron or steel wire	6.5%
790700	Other Zinc	3%

Summary of Iron and Steel Offers, Chapter 72 - 83

Import Duty	Tariff Rate	Tariff Lines (%)
MFN Zero	0	940 (73.9%)
Immediate Elimination Upon Entry Into Force	5-15%	81 (6.4%)
Duty Free Year 5	5-15%	78 (6.13%)
Duty Free Year 10	5-20%	173 (13.6%)
Total		1272

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Significant Products with Immediate Elimination

Chapter	Description	Tariff Rate
731815	Other screws	5%
741110	Copper tubes and pipes	5%
761699	Other articles of aluminium	15%

Summary of Iron and Steel Offers, Chapter 72 - 83

Import Duty	Tariff Rate	Tariff Lines (%)
MFN Zero	0	505 (72.1%)
Immediate Elimination Upon Entry Into Force	9%	140 (20%)
Duty Free Year 6	9%	33 (2.6%)
Duty Free Year 11	9%	22 (1.7%)
Total		1272

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Significant Products with Immediate Elimination

Chapter	Description	Tariff Rate
760820	Tubes, pipes; Of aluminum alloys	9%
731829	Other screws, bolts, nuts	9%

Summary of Iron and Steel Offers, Chapter 72 - 83

Import Duty	Tariff Rate	Tariff Lines (%)
MFN Zero	0	536 50%
Immediate Elimination Upon Entry Into Force	0.20-15%	406 (40.9%)
Duty Free Year 5	2-12%	39 (3.9%)
Duty Free Year 10	6.8-24.6%	11 (1.1%)
Total		992

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Significant Products with Immediate Elimination

Chapter	Description	Tariff Rate
730793	Butt welding fittings	4.30-6.20%
732690	Articles of Iron or steel	2.90-7.80%
741110	Refined copper, tubes and pipes, seamless	1.10%
761699	Aluminum, articles, nesoi	2.5%
790700	Zinc, articles	3%
830990	Base metal stoppers, caps and lids	2.6%

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RULES OF ORIGIN AND PROCEDURES

Comprehensive ROO -Objectives

- To increase transparency, predictability and consistency in both the preparation and application of rules of origin.
- Provide common set of rules to promote regional supply chains.
- To ensure the TPP parties rather than non-participants are the primary beneficiaries of the Agreement.

- Stringent ROO for sensitive/Strategic Sectors – Automotive products (CA, JP, MX, JP, US, MY); Textile (US, MX, PE, MY, VN) and Agriculture (US, CA, AU, NZ)
 - ROO for sensitive sectors are restrictive to prevent trade deflection – circumvention of MFN tariffs by parties using third party’s input.

Key Feature:

No general rule – PSR for each tariff lines, largely based on CC or CTH, and

Regional Value Content (RVC) ranges 40-55%.

Remanufacturing goods

- Confer origin to recovered materials obtained in TPP region for production of remanufacturing goods - will benefit main producers of remanufacturing goods to comply with ROO and granted tariff preferential.

Full accumulation rule

- Regardless of its value-added proportion, all value added in a country of the region is accumulated and considered as originating in the region

Full Self Certification System

- Producers, Exporters, or Importers shall produce an origin declaration to enjoy preferential tariff
- 5 years transition period for Brunei, Peru, Malaysia, Mexico & Viet Nam to implement Importers Self cert

Key Features

- Regional Value Content (RVC) – The RVC can be calculated in one of four ways (formula):
 - ✓ Focused Value Method: Based on the Value of Specified Non-Originating Materials
 - ✓ Build-down Method: Based on Value of Non-Originating Materials
 - ✓ Build-up Method: Based on Value of Originating Materials
 - ✓ Net Cost Method (for some automotive products)

Rules of Origin – Iron & Steel

- TPP includes ‘comprehensive’ rules of origin (ROO) for iron and steel products.
- The rules are largely based on RVC which is between 40 to 55 percent (Build Down).
- The rules will ensure that producers in Malaysia and other TPP countries use materials sourced within the region or substantial process to be done in the region.
- Cumulation – flexibility to use inputs from parties such as Japan, Australia and Vietnam to get preferential treatment in the TPP region.

Product Specific Rules

Chapter 72 Iron & Steel – the rules are CC & CTH only.

Products	Description	Rules
720221	Ferro-silicon, containing by weight more than 55 % of silicon	CTH, except from heading 72.20
720690	Primary forms, iron/non-alloy steel, nes, of a purity < 99.94% iron	Change of Tariff Heading (CTH)
720852	Hot roll iron/steel, not coil >600m m x 4.75-10mm	Change of Tariff Heading (CTH)
721391	Hot rolled bar/rod, irregular coils, <14mm diameter	Change of Chapter (CC)
722020	Flat rolled prod, stainless steel, <600mm wide, cold rolled or reduced	CTH, except from heading 72.20

Product Specific Rules

Chapter 73 Articles of Iron or Steel – mostly change in tariff classification OR RVC.

Products	Description	Rules
730793	Fittings, but welding, iron or steel	Change of Chapter (CC)
730723	Fittings, butt welding, stainless steel	Change of Chapter (CC)
732010	Springs, leaf and leaves therefor, iron or steel	• Change of Tariff Heading (CTH); OR RVC 45 percent Build-Down
732410	Sinks and wash basins, stainless steel	• Change of Tariff Heading (CTH); OR RVC 50 percent Build-Down
732620	Articles of wire, iron or steel	Change of Tariff Heading (CTH)

Product Specific Rules

Chapter 74 – 83 -Copper, Nickel, Aluminium, Lead, Zinc, Tin, Other metal bases – mostly change in tariff classification OR RVC.

Products	Description	Rules
740821	Wire, copper-zinc base alloy	<ul style="list-style-type: none"> • CTH, except from heading 74.07; OR • RVC 40 per cent Build-Down
761090	Structures & parts, alum, eg plate, rods etc, for struct, excl prefab bldgs	Change of Tariff Heading (CTH)
780110	Lead refined unwrought	Change of Tariff Heading (CTH)
790700	Articles of zinc	<ul style="list-style-type: none"> • Change of Tariff Heading; OR • RVC 40 per cent Build-Down
830990	Stoppers, caps, lids, seals & other packing accessories of base metal	Change of Tariff Heading (CTH)

Snapshot.. For Iron & Steel Industry

- Defensive interests
 - Longer period for import duty elimination – 7-10 years for most of the tariff lines
 - Less flexible ROO for sensitive products – to discourage circumvention
- Malaysia to maintain export duties on scrap metals.
- Cumulation – flexibility for Malaysian producers to use inputs from parties such as Japan, Australia and Vietnam to get preferential treatment in the TPP region

Why Malaysia needs TPPA?

- Trade : 4 new preferential markets
- Malaysian exporters will not have preferential access in the huge duty-free market of 800 million people and a GDP of USD27.5 trillion. This market is expected to be further expanded to other countries like Korea, Taiwan, Indonesia and other APEC economies joining TPP.
- Investment: Attracting FDI and preserving existing investors
- International standards – Labour and Environment
- Good governance - transparency, anti corruption
- Confirms Malaysia is an open trading nation that is business friendly, worker friendly and environment friendly

Challenges of TPPA

- Local companies have to improve productivity and their products' quality to continue to be competitive in local and global markets
- Local products have to meet certain standards – may increase production cost
- Employers have to bear additional costs to meet the required standards for human resource and environment management
- Government will incur additional cost due to the monitoring and enforcement activities
- Government has to amend several laws and regulations

Trade Rules

- No opportunity to write rules that takes into account the interests of Malaysia (first mover advantage).
- Agreement cannot be changed if Malaysia decided to join later – no/less flexibilities.

Competition

- Neighbouring countries will be more competitive than Malaysia in the TPP region.

Investment

- Malaysia will become a less attractive investment destination for investors.

Food for thought...

“We recognise the limits of the domestic market. We know that we can only generate new and additional sources of growth and investment by expanding our boundaries to the rest of the world, which is a promise that TPP holds.”

Datuk Seri Saw Choo Boon, President of Federation of Malaysian Manufacturers, (News Straits Times, 16 Januari 2016)



Please visit www.miti.gov.my for the legal texts of the TPPA, a summary of the Agreement, FAQs and other useful material.

Thank you



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