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Audit of Administration's 'Tax Cuts' Claim for TPP Reveals Cooked Numbers and Misdirects

WASHINGTON, D.C. – The Obama administration's claim that the Trans-Pacific Partnership (TPP) will deliver "tax cuts for 18,000 Made in America products" is wrong, a new Public Citizen analysis shows. The new Public Citizen report also addresses the real question from which the administration's redirect to an impressive-sounding number distracts: Would cutting even 18,000 tariff lines necessarily equate to more U.S. exports, jobs or growth?

"The administration owes the public and Congress an explanation of how it cooked up what obviously is a false 'TPP tax cut' number, but more broadly touting a large number of tariff lines cuts misdirects attention from the real question of whether the TPP will create more American jobs or cause damage," said Lori Wallach, director of Public Citizen's Global Trade Watch.

The disconnect between tariff lines cut and economic gains is spotlighted by the U.S.-Korea Free Trade Agreement (FTA), which cut nearly 10,000 tariff lines. Yet, in its first three years, U.S. goods exports to Korea dropped 7 percent and the U.S. deficit with Korea surged 90 percent.

Public Citizen's new analysis reveals that:

- The claim about 18,000 tax cuts on Made in America goods is obviously wrong.
  - In 2014, the United States exported items relating to a total of 8,687 tariff categories to *all* of the 11 TPP countries. Even assuming tariffs remained in each category of products, and many already are duty-free, the TPP clearly would not deliver "tax cuts" for 18,000 U.S. products. (The administration says the 18,000 figure refers only to cuts with just the five TPP nations that do not have a U.S. trade deal and to these nations we sent exports in only 7,289 categories.)
  - That the administration's 18,000 figure represents double, triple or quadruple counting also is revealed by reviewing Brunei, Japan, Malaysia, New Zealand and Vietnam's TPP tariff schedules. None list more than 10,000 tariff categories with many lines duty-free absent a TPP.
- Whether tariff cuts translate into more U.S. exports or jobs relies on whether we make or TPP nations demand the relevant goods. For 5,830 of 7,289 categories (80 percent) in which the United States exported *anything* to the relevant TPP countries, sales were less than $5 million. A quarter

had sales of less than $100,000. In only 21 of 7289 lines did we export more than $500 million and some of these already are duty free.

- 1,225 of the tariff reductions in the products we do sell to the five TPP nations without U.S. FTAs won't be realized for a decade or more. This includes goods we produce in volume, like beef, which will still face a 20 percent tariff in Japan in the tenth year after the TPP would go into effect.

- The six TPP partners with which the United States already has FTAs collectively account for more than 80 percent of the trade counted in the oft-touted statistic that the TPP covers 40 percent of world trade. Thus, tariffs on U.S. goods going to Australia, Canada, Chile, Mexico, Peru and Singapore already are gone or are being eliminated. So while TPP countries may account for 40 percent of world trade, the TPP would cut tariffs on only 20 percent of that 40 percent share.

- Among the items the United States simply do not export are those relating to species that the administration claims the TPP's Environmental Chapter will help conserve. Yet perversely, the list of tariff cuts that the administration counts as a benefit of the TPP includes Malaysia's shark fin tariff, Vietnam's whale meat tariff and Japan's ivory tariff.

- Even setting aside the problem of currency manipulation, cuts translate into more market access only when tariffs are significant enough to make U.S. products uncompetitive. Japan comprises fully 88 percent of the combined gross domestic product of the TPP countries that do not already have a U.S. FTA, but Japan's average applied tariff weighted by product import shares is now only 1.2 percent. Indeed, the tariff *levels* in the remaining five TPP are generally low.

- The raw number of tariff lines countries agree to cut also does not tell us much about a pact's effect on consumer prices. The TPP includes tariff cuts on the shoes Nike produces in Vietnam to sell here, but currently shoes that retail for more than $100 cost about $10 to make. The tariff is charged on the cost, thus even a major percentage cut does not equate to much money. And, whether a firm like Nike will reduce prices or simply gain more profit on an item imported for sale here is determined by what consumers are willing to pay for the product.

- While firms importing goods into the United States will determine whether to pass savings related to U.S. tariff cuts on to consumers, the TPP's reduction or elimination of tariffs does necessarily reduce U.S. Treasury revenue. According to President Barack Obama's proposed 2017 budget, the TPP would cost the United States about $28 billion in lost tariff revenue over the next 10 years. (The calculation is based on the assumption that the TP\P takes effect in 2017.)

The administration's "TPP Guide to 18,000 Tax Cuts" document oddly highlights goods that TPP nations simply do not buy in volume *from anyone*. Consider the 34 percent "tax" cut by Vietnam on Alaskan caviar. In 2014, Vietnam's per capita GDP was about $2,000 and about $150,000 worth of caviar was imported by Vietnam from anywhere. Or Vietnam's 5 percent tariff on skis from Colorado. Vietnam imported only about $50,000 in skis in total. Other highlights: Vietnam and Japan will eliminate their tariffs on silkworm cocoons, Brunei will cut its tariff on ski boots and Vietnam will eliminate its tariff on camels.

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