

Montreal Economic  
Institute

August 2001

# Why We Need Freer Trade in Canada

There seems to be a view among Canadian governments that the domestic market and interprovincial trade are not important. Canada as a country doesn't have enforceable trade rules. Provincial governments can and do use their legislative and regulatory powers to protect local interests and limit trade in their markets. We also don't have an effective mechanism to ensure that our domestic market is functioning the very best it can to support and sustain export growth in the future.

There has been a noted shift in the relative importance for Canada of interprovincial and international trade since 1992.

Although interprovincial trade has increased, it has done so at a slower pace than international exports, suggesting that there is less interdependence among provinces<sup>1</sup>:

- between 1992 and 1998 interprovincial trade increased at an average 4.7 percent each year;
- during the same period international exports increased by a very strong average of 11.9 percent a year with imports growing at a slightly slower pace at 10.9 percent;

• international exports grew from 26 percent of GDP in 1992 to almost 40 percent in 1998 while interprovincial trade

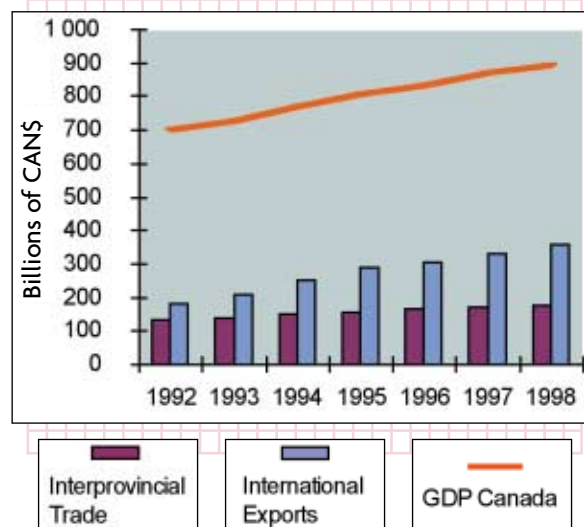
kept pace with GDP at around 20 percent (see **Figure 1**);

• international exports grew faster than domestic exports from 1992 to 1998 in all provinces except New Brunswick.

This strong international trade performance in recent years is good news for Canada's economy but, perversely, the shift in relative importance between international and interprovincial trade may be bad news for Canada as a nation and for export growth in the long run.

Figure 1

Canadian Interprovincial Trade and  
International Exports in Relation to GDP,  
1992-1998



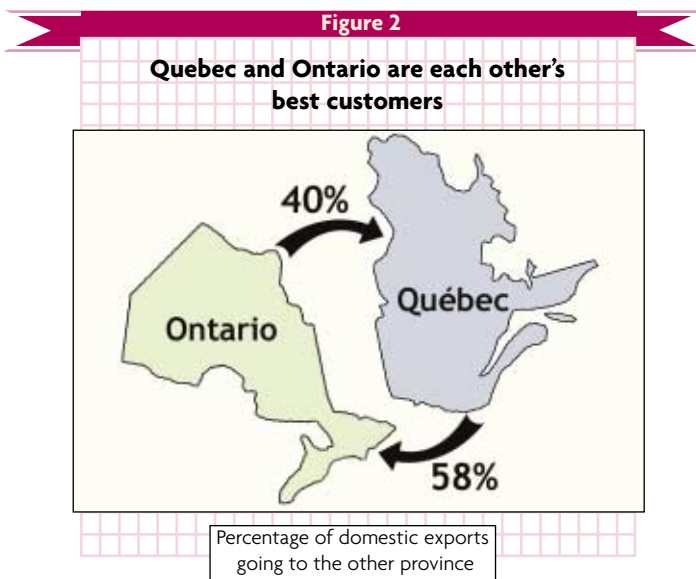
<sup>1</sup> The source for all data used in this paper is *Interprovincial Trade and International Trade in Canada, 1992-1998*, Statistics Canada: Catalogue no. 15-546-XIE.



## The Importance of Interprovincial Trade

Ontario and Quebec are the major players in interprovincial trade, as would be expected from the two largest and most integrated domestic economies. They remain each other's best customers with 40 percent of Ontario's domestic exports going to Quebec and 58 percent of Quebec's exports going to Ontario (see **Figure 2**).

From 1992 to 1998 Quebec had regular deficits in interprovincial trade with Ontario and Manitoba but surpluses with all other provinces in every year. Ontario is the undisputed trade leader in Canada with interprovincial trade surpluses increasing from \$20 billion in 1992 to \$29 billion in 1998.



Some provinces may now see that their economic destiny lies to the south. Who can blame them? Canada's market is 30 million while there is an increasingly accessible market ten times that size just to the south. But interprovincial trade is not irrelevant to Canada's economy or to its international trade performance and particularly not to Quebec and its trade (see **Figure 3**).

### The Agreement on Internal Trade

Quebec's international trade success and that of other provinces is based on the openness and stability of the Canadian market and on more open continental trade provided by NAFTA. If the Canadian market erodes or discourages domestic productivity then our international competitive advantage will diminish.

A strong domestic Canadian market depends on government policies, regulation and administrative practices that support and promote openness, accessibility and competition. In a federation this requires cooperation among all governments. This is what the *Agreement on Internal Trade* is supposed to provide. It was negotiated by all Canadian governments in 1993-94, ratified by First Ministers in July 1994 and came into effect in July 1995.

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The *Agreement's* objective is to reduce and remove barriers to trade in Canada and to establish an open, efficient and stable domestic market. It includes a set of rules that eliminates discrimination based on geography, as well as measures that prevent trade or create barriers to trade that are not necessary to accomplish a "legitimate objective" (e.g. public health and safety, consumer and environmental protection, etc.). It also establishes a Committee of Ministers and a Secretariat in order to accomplish the *Agreement's* objective and puts in place a dispute settlement process.

However, since the *Agreement* came into force in 1995 it has been invisible. It fails in many respects to accomplish its goals and Canadian governments have not used it to co-ordinate their efforts to make Canada's domestic market work better.

In fact the *Agreement* should provide an opportunity for Canadian governments to co-operate to ensure that the nuts and bolts of the Canadian market are tight and the cogs are lubricated and meshing. Better still, trade in Canada should be seamless with a minimum of intervention by governments.

### Some Specific Problems

Many barriers remain unidentified and unchallenged because the *Agreement* is complex and inaccessible as well as being almost invisible. No doubt some barriers remain in place through institutional and public policy inertia or because of the perceived self-interest of specific industry or groups.

Following are some of the more typical and glaring examples that provide a notion of the kinds of problems that exist. Generally we find barriers where there is the most government regulation.

#### AGRICULTURE: THE DAIRY TRADE

Agriculture is one of the most regulated and protected sector in Canada. The dairy industry provides a good example of the type of internal barriers that affect trade between provinces. There are three specific cases of barriers that protect the dairy trade and none is necessary to protect the consumer or public health and safety:

- measures that prevent the sale of coloured margarine in Quebec;
- Ontario's *Edible Oils Act* that prevents the manufacture and sale of imitation dairy products that are made from a combination of vegetable oil and a dairy product; and



- fluid milk distribution licensing measures in Ontario, Quebec and the Atlantic provinces that prevent fluid milk products from moving freely across provincial boundaries.

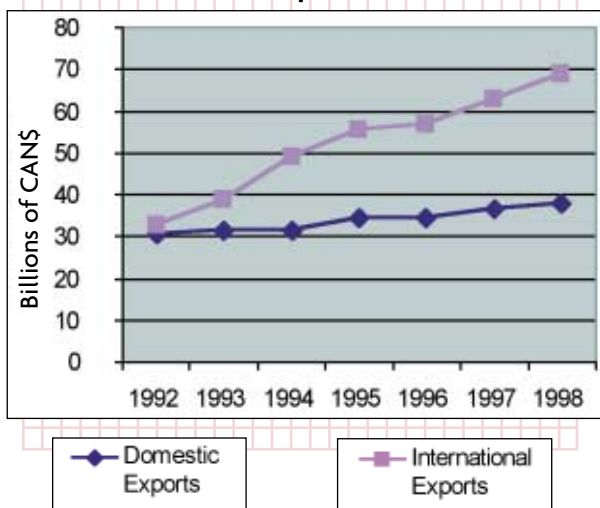
Coloured margarine is an accepted product in its own right and consumers are sophisticated enough to determine their preferences. Furthermore, eliminating colour restrictions in other jurisdictions has not had the devastating impact that the dairy industry in Quebec contends it will have. The interesting thing is that although the margarine industry asked Ontario at least three years ago to use the *Agreement* to solve this issue with Quebec, nothing has happened.

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these requirements limit mobility and are inconsistent with the *Agreement*. They likely go unchallenged because they mostly affect individuals rather than businesses, and isolated workers have no idea how to challenge them using the *Agreement*.

Figure 3

**Quebec Domestic and International Exports, 1992-1998**



Imitation dairy products made from vegetable oils of various kinds are commonplace in the North American market. Why they should be excluded from Ontario is a mystery. The main impact is that Ontario companies have lost an opportunity to use their quality vegetable oil produce to establish a competitive processing industry. Even more mysterious is why the province maintains the legislation when at least two jurisdictions have made representations under the *Agreement* concerning its trade effects.

In the past, most provinces licensed milk processing and distribution for public health reasons. The measures are no longer necessary as national standards and inspection have evolved and technology has improved the safety of fluid milk products. In the West restrictions on the interprovincial movement of fluid milk are gone. But they are still in operation in the East where they have been used to protect local processors, particularly in the Maritime Provinces where the result is an unproductive, non-competitive and vulnerable dairy industry.

**LABOUR MOBILITY: ACCOUNTANTS**

Mobility remains a problem. Workers in many professions must meet certification and residency requirements and some of

For example, in most Canadian jurisdictions accountants who are properly qualified by one of the three recognized Canadian professional accounting organizations (Chartered Accountants, Certified General Accountants and Certified Management Accountants) are permitted to do audits and review engagements. But Ontario and PEI exclude non-CAs while Nova Scotia gives preference to CAs as does Quebec.

Any recognized accountant performing audit or review engagements applies the same nationally and internationally recognized standards. Accountants are trained and educated in ways that are similar and comparable (particularly between CAs and CGAs). There is no longer a legitimate reason to exclude accountants who are properly trained and certified by any of the professional groups from performing audit and review engagements in any jurisdiction in Canada.

**CONSTRUCTION: QUEBEC REGULATORY RESTRICTIONS**

Since the mid-seventies, Quebec has restricted who may do construction work, either as individual workers or as a company, in designated regions. This regulatory framework was introduced to resolve conflicts in the construction industry.

As a by-product it has limited worker mobility and competition and restricted access to the construction industry for contractors and workers from the neighbouring provinces of New Brunswick and Ontario. Workers and companies from Quebec have open access to these markets but the reverse is not true.

**CORPORATE REGISTRATION**

All provinces have their own registration and reporting requirements for extra provincial corporations operating in their jurisdiction. Obviously it would be a benefit to businesses if these requirements could be standardized nationally and modern information technology applied. The *Agreement* includes an undertaking and a detailed plan to accomplish this objective. The system was supposed to be implemented by July 1, 1999. The date has come and gone but nothing has happened.



## ENERGY

The *Agreement* includes a commitment to complete a chapter on energy by July 1995. There still is no chapter. Apparently, though, a draft that is acceptable to most governments has been around for almost two years. But "most" is not "all" and the *Agreement* works, or doesn't, by consensus.

The draft is reported to resolve all the complicated energy issues between Canadian governments including how to allow and charge for "wheeling" (transmitting electricity over the lines in a jurisdiction to deliver to a customer in another jurisdiction). This is an important breakthrough or would be if the chapter could be ratified.

## PUBLIC SECTOR PROCUREMENT

The *Agreement* establishes an electronically based public sector procurement market. This was one of its major accomplishments. This success is qualified however by a long list of exceptions that governments are having a hard time cutting back. Quebec's exclusions still includes Hydro-Québec and Société des alcools while Ontario excludes none of its departments, agencies and crown corporations.

The chapter also excludes large volumes of contracts for services and construction below \$100,000. It is hampered by a toothless, obscure and ineffective bid protest mechanism for provinces that discourages suppliers from complaining if the governments don't obey the rules.

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## Conclusion

There are other internal trade issues that may not be important to the economy in a macro sense but that are, nonetheless, anywhere from bothersome to critical for individuals or businesses.

The problem is that there is no oversight of the national market. There are also no effective trade rules that Canadians can count on to provide the predictability that is necessary to support a productive and efficient national marketplace, the development of which is crucial to sustain growth in international trade.

The framework does exist however: the *Agreement on Internal Trade*. It should be used to:

1. involve and engage all Canadian governments in overseeing the effectiveness of Canada's domestic market;
2. ensure the implementation of specific intergovernmental initiatives that are necessary to remove barriers and improve the functioning of the market; and
3. establish clear and enforceable trade rules.

In an age of increasing globalisation, it becomes more critical than ever that our governments co-operate to reinforce the Canadian union by removing all remaining internal trade barriers. The fact is that while Quebec's, and the rest of Canada's, growth may be in the markets south of the border, our strength is in our domestic market, in its stability, its openness and its predictability.

To sustain our growth we need to be sure that Canadians can move and conduct business in every part of the country and that commerce is seamless and as free as can be. For that we need a functional and effective *Agreement on Internal Trade*.

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