

PROTECTING REGIONAL AND SOCIAL PROGRAMS AND ENVIRONMENTAL LABOUR AND CONSUMER STANDARDS

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I. INTRODUCTION

MY PRESENTATION WILL FOCUS PRIMARILY on one of the sub-themes proposed to us, namely regional programs, which I interpret to mean programs targeted to a specific region. Generally speaking, targeted regions face unique challenges with respect to economic development. First I will examine the frames of reference for the analysis, and then look at the questions of regional development efforts and regional equality in the context of the *Agreement on Internal Trade*.

II. FRAME OF REFERENCE

TO BETTER UNDERSTAND THE FRAMEWORK surrounding the issue of interest to us, it would be useful to first examine the Canadian Constitution. More specifically, Article 36(1) of the Constitution Act, 1982, which states, among other things, that the federal and provincial governments are committed to furthering economic development in order to reduce disparity in opportunities. Article 36(2), deals with the subject of equalization. There we read that Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. In other words, not only does the Canadian Constitution allow for regional programs, it renders them necessary so long as fairly significant disparities exist.

III. AGREEMENT ON INTERNAL TRADE (AIT)

AND WHAT OF THE *AGREEMENT ON INTERNAL TRADE*? In Article 1801.1 we read that "the Parties recognize that measures adopted or maintained by the Federal Government or any other Party that is part of a general framework of regional economic development can play an important role in encouraging long-term job creation, economic growth,

industrial competitiveness or in reducing economic disparities.”

The *Agreement* thus allows for the establishment of regional programs that have the objective of the economic development of these regions.

Article 36 of the Constitution Act, 1982

- (1) Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to
 - (a) promoting equal opportunities for the well-being of Canadians;
 - (b) furthering the economic development to reduce disparity in opportunities; and
 - (c) providing essential public services of reasonable quality to all Canadians.
- (2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

IV. WORLD TRADE ORGANIZATION (WTO)

ANY COUNTRY THAT SIGNS AN INTERNATIONAL AGREEMENT loses some elements of sovereignty. In this regard, do the international agreements signed by Canada limit our flexibility to act in respect of regional development efforts? The relevant documents of the WTO on this subject reveal that Canada's international commitments incorporate regional initiatives, but in no instance do they exclude the possibility of offering regional programs, including subsidy programs.

Please note that references to regional programs with respect to subsidies that are non-actionable (see reference below) were to be renewed at the Seattle Summit, which was not done. Nevertheless, everything seems to indicate that although this is no longer explicitly stated in current texts, regional programs are still acceptable today.

Article 1801.1 of the Agreement on Internal Trade

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World Trade Organization (WTO)

Non-actionable Subsidies: this category covers both specific and non-specific subsidies for industrial research and pre-competitive development activity, assistance to disadvantaged regions, or certain types of assistance for adaptation of existing facilities to new environmental requirements imposed by law or regulations. Such subsidies cannot be contested under a WTO disputes settlement procedure, and counter-vailing duties cannot be imposed on subsidized imports. They must, however, satisfy rigorous conditions.

V. OTHER CASES

IT IS ALWAYS INTERESTING TO LOOK AT what other jurisdictions are doing. An administrative region which is in fact in the process of further integrating internal trade, is the European Union. In the European Commission documents, we read that one of the objectives of the European Union is to reduce the disparities between the regions and thereby ensure economic and social cohesion. For this reason, financial assistance in particular is provided to the disadvantaged regions of Europe.

In the United States, although the development of disadvantaged regions is less supported by regional programs, it is arguable that in many respects, the current structure could be a more efficient instrument: a Triple-E Senate!

European Union, Commission Guidelines for Regional Development Programs for 2000-2006.

Structural Funds: One of the objectives of the European Union is to reduce disparities between regions and thereby ensure economic and social cohesion. For this reason, financial assistance in particular is provided to the disadvantaged regions of Europe. This assistance is provided through four interconnected "Structural Funds":

- European Regional Development Fund (ERDF), which is involved in the most disadvantaged regions of the Union and concentrates its activities on productive investments, infrastructure, local development and SME development;
- European Social Fund (ESF), geared to occupational training and recruitment assistance;
- European Agricultural Guidance and Guarantee Fund (EAGGF), "Guidance" section, which supports agricultural structures and rural development;
- Financial Instrument for Fisheries Guidance (FIFG), which contributes to the structural adjustment of the fisheries sector.

We conclude this quick overview by stating that trade agreements, both national and international, allow for the implementation of regional programs.

VI. ANALYSIS

GIVEN THE ABOVE, we might ask the question why even discuss the future of regional programs in the context of trade agreements? And let us not forget that the history of Canada was built on regional programs: construction of the railway, the National Policy, construction of the St. Lawrence Seaway, the Auto Pact, agricultural policies, an alphabet of regional development programs, sector policies in aerospace, pharmaceutical products, etc., etc. Nevertheless, it is relevant to discuss this question. Regional programs can impede the orderly conduct of trade. There are also other trends that may help us somewhat better understand the debate.

VII. THE GOLDEN TRIANGLE

NOT SO LONG AGO, we had what I would call the Canadian golden triangle. At the risk of over-simplifying, we had the center of the country providing the Federal Government with funds, a certain percentage of which it would "redistribute" to disadvantaged regions in the form of regional programs. However, a significant portion of these transfers was used to purchase goods and services produced by the center of the country. We are therefore led to wonder whether these programs were based on a truly altruistic philosophy, or whether they were in fact perceived as an "investment". In addition, given the existence of regional policies benefiting essentially the center of the country, such as Auto Pact, it could be further argued that programs aimed at assisting disadvantaged regions were actually a form of compensation for regions negatively impacted by regional policies benefiting the center of the country.

VIII. THE EROSION OF THE GOLDEN TRIANGLE AND THE PATH TO AN OPTIMAL COMPETITIVE

INTERNATIONAL FREE TRADE AGREEMENTS (FTA, NAFTA) are not solely responsible for the erosion of the golden triangle but they did contribute substantially to accelerating a general trend. The major trend in trade is north-south (Canada-U.S.), not east-west (interprovincial). This has led to two new realities:

- 1) The opening of borders reduces the significance of the "return" with respect to regional transfers. Would Central Canada be less interested in financing development efforts in disadvantaged regions if its own dividends on these "investments" were less significant?
- 2) The opening of borders increases competition. This creates pressure to reduce the tax burden, pressure that is targeted very specifically at programs like regional programs.

IX. CONCLUSIONS: IMPLICATIONS FOR THE AIT

BY WAY OF CONCLUSION, I would like to emphasize three points:

- 1) The AIT is likely to have a positive effect on confederation, from the perspective of the disadvantaged regions, by strengthening

east-west ties and by extension the importance of the markets of the disadvantaged regions for the richer regions. This could at least alleviate the pressure to reduce the financing of regional programs.

- 2) Even from the perspective of the disadvantaged regions, inter-provincial protectionism cannot really be considered a valid option. If you accept that disadvantaged regions are living in an environment in which international markets are becoming more open, it would seem logical to have a simultaneous liberalization of internal markets.
- 3) The various international agreements allow for the existence of regional programs. As long as major disparities exist in the country, these programs will exist in one form or another. However, while acknowledging that any government intervention in this regard will impact trade, it would be inadvisable for regional programs not to target activities that will adversely affect the "orderly conduct" of interprovincial trade.