

UNFINISHED AGENDA: FREEING UP CANADA'S INTERNAL TRADE MARKET

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IT'S FRUSTRATING THAT AFTER SIX YEARS THE AGENDA agreed to by federal and provincial governments for the *Agreement on Internal Trade* remains so unfinished. Because there are sound economic and social reasons for ensuring the free movement of goods and services across the country and providing equality of job access for the professions and trades.

The potential of the *AIT* is substantial. But its progress has been spotty and implementation slow. The dispute-resolution process has no teeth. Some parts of the *Agreement* are still under negotiation. Deadlines for completion have been missed. For instance, only two-thirds of occupational regulatory groups working on "mutual recognition" agreements under the labour mobility section will meet their July 1 deadline.

By its nature, the *Agreement* will always be a work in progress. But as a timely report commissioned by the Certified General Accountants Association has just pointed out, governments in Canada seem hesitant to apply the provisions that are in force.

Implementation and improvement needs a lot more political will than is now being shown. The lead for this must come from Ottawa, although it will also require a renewed push from the provinces and private sector. It was the federal government that originally championed the concept of free internal trade. Unfortunately, its voice on the issue has been muted lately – not deliberately, more by benign neglect. It's time for Ottawa to flex its muscle – not by taking unilateral action but by showing leadership. It has the constitutional power to act unilaterally but we don't need another lot of federal-provincial fractiousness.

Faster and more effective implementation of the *Agreement* would clearly strengthen the Canadian federation. Economic growth would be faster than otherwise. Opportunities for business investment and job-creation would be expanded. Incomes on average would be higher. Poverty would be reduced. In turn, the revenue bases of governments in Canada would be healthier and more sustainable. This would leave more fiscal room for general tax relief and public debt reduction. Put another way, there would be less need for our governments to raise taxes or to borrow more to fund publicly provided social programs.

There's overwhelming evidence that open economies grow faster than closed ones – and by quite a big margin. Free internal trade would unleash economic activity and help spur innovation and product special-

ization. The reduction in barriers to trade between Canada, the U.S. and Mexico for example has opened up whole new markets for Canadian companies and in doing so made them become more competitive. Our exports to these markets have boomed. Numerous Canadian firms have reported increases in business of 50% and more with the U.S. since the mid-1990s because of NAFTA's impact on market access and competitiveness. Unemployment has dropped. Other free-trade agreements have had similar results.

Compared with our international export successes, however, inter-provincial trade has been growing relatively slowly. It now accounts for only about 20% of Canada's gross domestic product vs 27% in the early 1980s, although that still represents nearly two million jobs. Some studies suggest the internal trade agreement has at least stopped the down-trend in share of GDP. But a study commissioned by the Canadian Chamber of Commerce estimates that even a 10% expansion in inter-provincial trade would create 200,000 jobs. This is easily achievable if the internal trade agreement could be made to work properly.

Yet many Canadian companies say it can often be easier to trade with U.S. states than to do business at home. This is crazy.

What's important to note is that more effective implementation of the internal trade agreement would particularly boost business opportunities across the country for small and medium sized companies. These firms simply aren't large enough to cope with the paperwork, management time and legal costs imposed by regulatory barriers and other impediments to interprovincial trade. Yet it is the small-business sector that's the biggest generator of new-job growth.

Take for example government procurement practices. The internal trade agreement prohibits local price preferences and requires equal treatment for bidders from other provinces on government purchases above \$25,000 for goods and \$100,000 for services and construction projects. But British Columbia (and the Yukon) have not signed on for the so-called MASH sector - municipal organizations, school boards and publicly funded academic, health and social-service institutions. This group claims it does entertain bids from outside the province, but that's not the story told by non-B.C. suppliers. Also, the *Agreement* still doesn't include federal and provincial Crown corporations. The deadline for bringing them in was 1996. They are still exempt.

The result is that many Canadian firms, especially smaller ones, are discriminated against in bidding for business contracts in their own country that are publicly funded. Ironically, international agreements such as NAFTA and the WTO may insist that foreign firms be allowed to go after government procurement orders in Canada before our own domestically based companies are able to do so.

Government procurement is a huge business market. Electronic tendering systems are now in place that make bidding for contracts much easier than just five years ago. But with a province such as B.C. not fully inside and with Crown corporations still exempt, opening up government procurement to free trade is still far from what it could and should be. Our small to medium sized business sectors are big losers in this. So are Canadian taxpayers because more competitive procurement policies could lead to substantial cost savings by government institutions.

There are other examples of where protectionist impediments to free internal trade and labour mobility limit business opportunities, cost savings and economic efficiency. Among them:

- Technical barriers to interprovincial trade in food and agricultural products. These are mostly related to supply management boards and differing product, grade and shipping standards.
- Energy: The *Agreement's* section on opening up trade in energy is still not completed.
- Transportation hurdles. Regulations in some provinces favour locally owned trucks for hauling work related to highway construction. Differences in weights and dimension standards are a form of protectionism too.
- Regional development programs. They're exempt from the *Agreement* and often discriminate against or limit out-of-province competition. Take for instance natural resources processing. The dispute over the Voisey's Bay nickel project underlines continuing interprovincial tensions. The Newfoundland government claimed that insisting Inco locally process concentrate produced from the proposed mine and mill rather than shipping it to existing processing plants in Manitoba and Ontario did not violate the internal trade agreement. Perhaps not. But the province's stance clearly was not in the interests of enhancing the project's economic efficiency. These kinds of exemptions leave huge loopholes that allow preferential treatment for local suppliers and labour rather than opening these projects up to out-of-province competition. Just being a citizen of Canada is not good enough to get a job on some provincial government projects. In practice, the federal government also imposes residency requirements for some of its hiring outside Ottawa.
- Residency and certification requirements for those employed in regulated occupations and trades. These cover 20% or so of Canada's labour force, which is sizeable. Even hairdressers and funeral directors -- yes, funeral directors -- can't move freely from one province to another to practise their profession because of differences in certification and qualification requirements. The point is that people who

want to move from one province to another do so because it is in their best interests. Otherwise they'd stay put. As long as they have the proper competency, it's wrong to make it difficult for them to move.

Ontario and Quebec have a separate agreement on labour mobility that takes precedent over the internal trade agreement's labour section. But it isn't working effectively either. In the Ottawa-Hull area, there are continual problems over the rights of competent construction workers to work on projects in either province.

There's another dimension to the *AIT* to consider: national unity.

The more closely integrated economically the provinces and territories are in terms of trade and job mobility, the better the prospects for holding the country together. Some 500,000 jobs in Quebec, for instance, depend on companies in that province doing business with other parts of Canada. Indeed, Quebec has the largest of GDP of any region in Canada generated by interprovincial trade. Freer internal trade is another arrow in the quiver for the case in favour of the province remaining a full member of the Canadian federation. Losing its common-market privileges would be costly for Quebec in economic terms. Trade with other parts of Canada would undoubtedly be affected in some way or other. It would face impediments. It certainly it wouldn't be easier.

The *AIT's* goals can be justified in another way: philosophically in terms of freedom. Right to work in your own country freedoms. Right to do business in your own country freedoms. It will be interesting to see what emerges from court challenges under the charter of rights against labour mobility impediments in Canada. A case involving the right to work on construction projects in Quebec will be heard by the Supreme Court of Canada eventually. Using the charter of rights may be more effective than using the *AIT* dispute settlement process. But court challenges wouldn't be necessary if the *Agreement on Internal Trade* were working more effectively.

What can be done to make the internal trade agreement more effective?

Speed up its completion and implementation, which means firm deadlines and sticking to them.

Legislate firm commitments to implement the *Agreement*. Not all jurisdictions have done this.

Strengthen the dispute settlement process so that complaints get handled more quickly and there are penalties for non-compliance. Companies and individuals are starting to make more use of the dispute-settlement process, which is encouraging. The CGAs, for instance, are taking the first person-to-government case forward. But the process is overly complicated and costly and some governments aren't taking it seri-

ously enough. Prince Edward Island took a year to respond to a panel decision against it on the issue of discriminatory dairy-trade treatment.

Step up efforts to eliminate overlap and duplication of regulatory standards – these would be on-the-ground practical steps forward.

Initiate a serious federal-provincial review of the *Agreement's* weaknesses. This shouldn't require another long round of public consultations. Give it six months at the most. Have the federal Industry minister commit the government to a parliamentary hearing on the results of the review and follow-up action. This would help ensure the issue gets quickly back on the national agenda and has a higher public profile.

The Canadian federation has many admirable qualities and works well. But it can work a whole lot better. It's time to take the *AIT* forward.

