



Alberta Premier Ed Stelmach, left, and British Columbia Premier Gordon Campbell, centre, have signed a new free trade and investment pact. Saskatchewan Premier Brad Wall, right, has withheld his signature.

Canada cautiously lifts barriers to internal trade

Supporters claim economic gains will be huge

BY WILLIAM DYMOND

SUPPORTERS OF FREE TRADE AMONG all Canada's provinces want to put today's domestic trade and investment restrictions in the dinosaur room of a museum. Canadian protectionists counter that the newest proposal for domestic free trade – already adopted by the provinces of Alberta and British Columbia – should go into the same museum's predator room.

One of the contradictions in Canadian policies in the early years of the 21st century is the commitment to the liberalization of international trade combined with the stubborn resilience of internal barriers to trade. Since the formation of the global trading system 60 years ago, Canada has been at the forefront of the rule making for global trade treaties and trade negotiations.

In the 1980s, Canada embraced bilateral free trade agreements as a complement to the multilateral system starting with the US and expanding to Mexico and a range of other countries. However, progress in reducing the formidable array of internal trade barriers has

been glacial.

The new agreement linking two western provinces is the British Columbia-Alberta Trade, Investment and Labour Mobility Agreement – known as TILMA.

The Conference Board of Canada, a moderate think tank, called the agreement “a promising step.”

Creates bigger market

“TILMA creates Canada's second largest economy – a market of almost eight million people,” said Ron Stevens, Alberta deputy premier and minister of international and intergovernmental relations, on April 15.

“It will mean seamless access to a larger range of opportunities across all sectors of the economy.” Stevens issued his statement after the introduction of Bill 1 in the Alberta legislature, a law that will eliminate the need for businesses to register in both provinces and waive certain requirements for energy regulators so that TILMA can take effect.

The Union of British Columbia

Municipalities is concerned that the agreement imposes thresholds on purchasing, restricts the power of local governments to distribute subsidies and grants, and poses potential obstructions to environmental protection projects of cities and towns. Some argue that TILMA has little if anything to do with interprovincial trade, but instead removes measures that were established to serve broad public or societal purposes. Others claim that the TILMA could force British Columbia to reverse a ban on junk food in public schools.

Province steps back

The newly-elected Saskatchewan Party government in Saskatchewan, Alberta's neighbouring province to the immediate east, has backed away from its previous statement of support for joining the trade pact because of its negative impact on certain tax incentives and on subsidiaries of provincially-owned corporations.

In 2008, Canada is committed to the liberalization of international trade, yet at home it preserves internal barriers to trade. In the 1980s, Canada embraced bilateral free-trade agreements as a

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complement to the multilateral system, starting with the U.S. and expanding to Mexico and a range of other countries. Strangely, trade liberalization abroad was contradicted by the persistence of trade barriers dividing the provinces at home.

The Alberta-British Columbia trade deal came into effect on April 1, 2007, and was a response to the frustration of the two governments with the slow progress made by previous agreements in attempting to bring down interprovincial trade barriers across Canada. It is a reasonably comprehensive economic agreement, covering energy, agriculture, transport and investment.

TILMA also ensures that qualifications and licences issued in one province are recognized in both. Regulations and standards that can impede trade are to be harmonized and no new restrictive regulations are to be imposed. Also, the trade pact mandates that there be no discrimination in government purchasing of goods worth \$10,000 or more, non-professional services worth \$75,000 or more, or construction costing \$100,000 or more.

Even cars gain mobility

These requirements will also apply to public organizations such as Crown (government-owned) corporations, as well as local governments, starting April 1, 2009. Under the deal, automobiles registered in one province can operate under a temporary registration in the other province.

Distortive subsidies that give one party a competitive advantage over the other are prohibited by TILMA. Subsidies are permitted in certain sectors, such as academic research, non-profit organizations, emergency aid to compensate for natural disasters, and book, magazine, film and sound publishers.

On Dec. 5, 2007, legislation was passed in Alberta providing for enforceable dispute resolution. According to Guy Boutilier, Alberta minister of international, intergovernmental and Aboriginal relations, "the legislation means a TILMA dispute-panel ruling will be enforceable. It will have real teeth."

If the government found at fault does not comply with a request to change its policy, it can be fined up to a maximum of \$5 million, with costs for the panel

paid by the losing party.

TILMA extends and implements a previous agreement along the same lines. In 1995, the federal government, the provinces and territories created the Agreement on Internal Trade. With that arrangement, known to economists as AIT, Canada acknowledged that it would have to reduce internal trade barriers in order to realize the full benefits of the 1989 Canada-U.S. Free Trade Agreement and the subsequent pact of 1994, NAFTA.

Measures enhance trade

In addition to AIT and TILMA, there are other arrangements in play that deal with internal trade. They are:

- the Social Union Framework Accord, signed by all provinces and territories except Quebec in 1999 with the aim of supporting labour mobility and not creating any new barriers through social policy initiatives,
- the Forum of Labour Market Ministers, formed in 1983 to encourage labour market co-operation, and
- the Interprovincial Standards Red Seal Program, which aims to increase labour mobility for skilled trades workers within Canada and has been in place for over 45 years. Under the Red Seal program trades workers have Canada-wide standards and an exam that provides national recognition. The objective is to eliminate the need for workers to obtain new qualifications when transferring to another province.

Quebec's construction industry has been significantly more regulated than Ontario's, presenting problems for Ontario workers wanting to work in Quebec. In 1999, Ontario lost patience and enacted the Fairness is a Two-Way Street Act. It was tired of Quebec construction workers streaming across the Ottawa River to work in Ottawa with no restrictions, while Ontario construction workers could not so easily work in Quebec. This law barred Quebec construction workers from Ontario government projects and forced them to register with the Jobs Protection Office. The two provinces eventually buried the hatchet with the June 2006 signing of the Ontario-Quebec Construction Labour Mobility Agreement.

The argument against having internal trade and labour mobility barriers is that they support vested political interests at the cost of economic growth. Often billed as a means to protect jobs and create wealth, they do the opposite, critics say, by making both the provinces that maintain them and the entire country poorer.

Section 91 of the Canadian Constitution Act gives the federal government exclusive authority over the regulation of trade and commerce. In 2007, the federal government said it would "consider how to use the federal trade-and-commerce power to make our economic union work better for Canadians." The government's rationale is clear. As the speech pointedly observed, "despite the globalization of markets ... it is often harder to move goods and services across provincial boundaries than across our international borders."

Invoking a disputed power

Invoking the Constitution's trade-and-commerce power would be a formidable challenge for the federal government. In the early years of Confederation, court decisions severely limited this power by generous interpretation of provincial authority over property and civil rights. Hence if the government were to cite this constitutional power, it would have to choose its case carefully.

Supporters of TILMA are urging provinces east of Alberta and B.C. to embrace that model at the earliest opportunity. They cite the November 2007 agreement between Ontario and Quebec premiers, Dalton McGuinty and Jean Charest, to begin negotiating an interprovincial trade agreement as the next step forward toward Canada-wide free trade.

Canada had a choice to contribute to the creation of international trade rules and the negotiation of lower trade barriers, or to stand aside and maintain its sovereignty over trade barriers. Internationally, Canada chose to join the world; internally it stood aside.

The result has been a failure to reap the full economic benefits of global trade rules and the global reduction of trade barriers. It is time, as Alberta and B.C. have recognized, to bite the bullet, adjust the policy and enhance future economic outcomes. 