Economic Viewpoint
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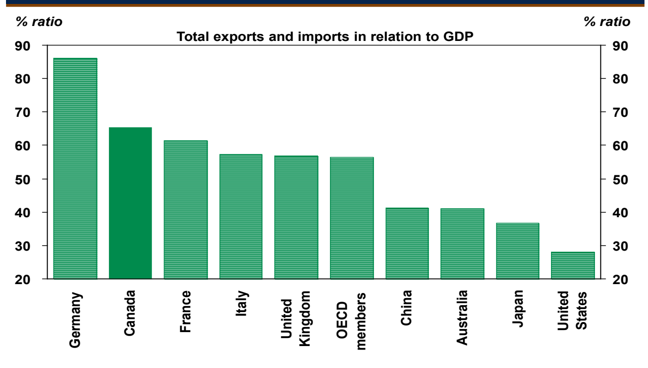
# The many barriers to interprovincial trade could lessen with the new Canadian Free Trade Agreement

Despite the Agreement on Internal Trade (AIT) that went into effect in all provinces and territories in 1995, numerous non-tariff barriers continue to hamper the interprovincial trade in goods and services. Meanwhile, Canada's international trade agreements have proliferated in recent years, going a long way to foster exports outside the country. Many businesses say it may now be easier to sell their products and services abroad than in another province. As a result, Canada's interprovincial trade has lost ground to international trade. Clearly, there is a need for greater harmonization of regulations and freer trade between the provinces. In July, the provinces and territories reached an agreement in principle on a new Canadian Free Trade Agreement (CFTA), offering strong hope in that area.

International trade has played an important role in Canada's economy for a long time. According to the World Bank, Canada's openness[1] to international trade was 65.4% in 2015, one of the highest rates among industrialized countries (graph 1). Canada has also entered into multiple free trade agreements in the last few years. After the North American Free Trade Agreement (NAFTA), which went into effect in 1994[2], further accords were ratified with Israel, Chile, Costa Rica, Iceland, Liechtenstein, Norway, Switzerland, Peru, Columbia, Jordan, Panama, Honduras and Korea. More recently, Canada entered into agreements with the Ukraine and European Union, as well as the members[3] of the Trans-Pacific Partnership.

Meanwhile, trade within Canada, i.e. among the various provinces, remains hampered by various barriers. This leaves us in a surprising position: it is sometimes easier for some businesses to sell goods and services outside Canada than in another province. Yet, since 1995, the provinces and territories have had the Agreement on Internal Trade (AIT), which is intended to foster better interprovincial trade by dealing with the obstacles to the free flow of people, products, services and investments within Canada. Clearly, the scope of this accord has become too limited over the years, given the increasing liberalization of international trade.

Graph 1 The Canadian economy is quite open to international trade




Sources: World Bank and Desjardins, Economic Studies

## MANY OBSTACLES TO INTERPROVINCIAL TRADE

Although no duty is applied to the goods and services traded between two provinces, there are many different kinds of roadblocks to such trade according to a report released in June by the Senate's Standing Committee on Banking, Trade and Commerce[4]. Most of the time, the barriers arise from the difference in provincial regulations, particularly on transportation, alcoholic beverages, food and drugs. The

[1] The rate of openness corresponds to the total value of exports and imports in relation to nominal GDP.

[2] NAFTA was preceded by the Free Trade Agreement (FTA) between Canada and the United States in 1989.

[3] The members of the Trans-Pacific Partnership are: Canada, Australia, Brunei Darussalam, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam.

[4] "Tear down these walls: Dismantling Canada's internal trade barriers," Report of the Standing Senate Committee on Banking, Trade and Commerce, June 2016.

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barriers are so numerous and differ so much from province to province that it is difficult to compile a complete list. That being said, figure 1 contains some aberrant examples of interprovincial trade barriers. Obviously, such provincial distinctions generate additional costs for businesses, substantially harming interprovincial trade.

**Figure 1 – The most absurd interprovincial trade barriers according to the Senate Committee**

In British Columbia, some types of trucks can only be driven at night, but can only be driven during the day in neighbouring Alberta.

In some provinces, truck weight limits differ depending on the tires used, forcing truckers to install different tires when they cross some borders.

Unpasteurized Quebec cheese cannot be exported outside the province.

The standards on beer bottle sizes differ from province to province.

The size of creamers and milk containers differ from province to province.

While British Columbia and Alberta have a carbon tax, Quebec and Ontario (and shortly Manitoba) have a cap and trade system, increasing the costs for operating in more than one jurisdiction.

Companies often have to register in each province and territory in which they do business.

Provincial standards on maple syrup categories differ.

The standards on organic foods vary, restricting access to some markets.

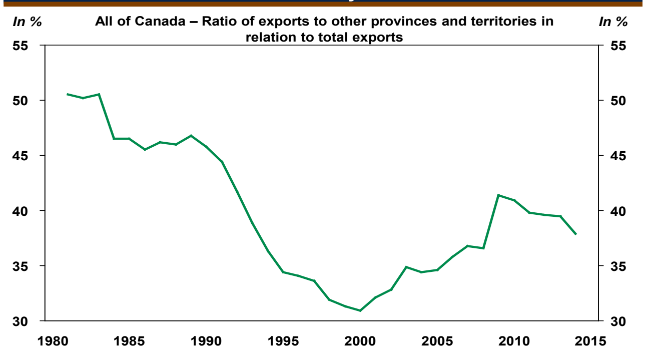
*Source: Report of the Standing Senate Committee on Banking, Trade and Commerce, June 2016.*

Restrictions also exist in the area of labour. There are currently a multitude of exceptions to reciprocal recognition, affecting certain professions. For example, Quebec lawyers cannot practice outside the province due to the country's two distinct legal systems. Nurses are also subject to restrictions as the field of practice differs by province. Differences in the regulations on worker training also create obstacles to the interprovincial movement of labour.

## INTERPROVINCIAL TRADE HAS LOST GROUND

Given the many ongoing barriers to interprovincial trade, it is not surprising to note that it has lost ground since the early 1980s. The provinces' exports can be divided into two categories: exports to other provinces, and exports outside Canada. This makes it possible to isolate growth by interprovincial trade within the provinces' total exports. The ratio between exports to other provinces and total exports has declined from just over 50% in the early 1980s to less than 38% in 2014[5] nationwide (graph 2). This means that, on average, the provinces were exporting $1.02 to other provinces for every $1 in exports outside Canada in 1981. In 2014, the provinces were exporting only $0.61 to other provinces for every $1 in exports outside Canada. As graphs 3 and 4 (on page 3) show, most of the provinces and territories have the same profile for the movement by the interprovincial export ratio. Newfoundland and Labrador differs somewhat, as the relative weight of its interprovincial exports is similar to what it was in the early 1980s. This is not necessarily good news: Newfoundland and Labrador has a very low ratio compared with the rest of the provinces, due to the magnitude of oil sales outside Canada. Alberta and Saskatchewan also have fairly low ratios, for the same reason.

**Graph 2 The relative weight of interprovincial trade has fallen in the last 35 years**



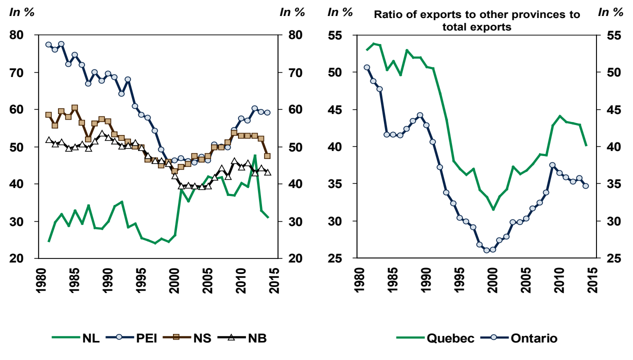

Sources: Statistics Canada and Desjardins, Economic Studies

## HEADING FOR A NEW TRADE AGREEMENT?

The good news here is that the provinces and territories seem determined to tackle the issue of interprovincial trade barriers. On July 22, the Council of the Federation announced that the provincial and territorial premiers had reached an agreement in principle on a new domestic trade agreement. The new Canadian Free Trade Agreement (CFTA) should, among other things, feature broader

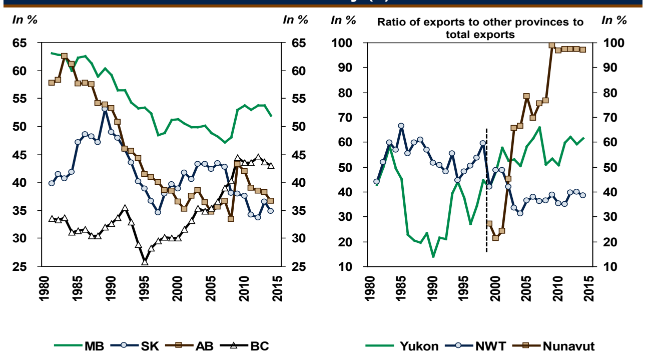
[5] The 2015 data for the provinces' economic accounts will not be released until November 9, 2016.

**Graph 3 The movement by interprovincial trade is similar across the country (1)**




Sources: Statistics Canada and Desjardins, Economic Studies

**Graph 4 The movement by interprovincial trade is similar across the country (2)**




Sources: Statistics Canada and Desjardins, Economic Studies

coverage of Canada's economic sectors. Unlike the current AIT, CFTA will be determined based on a negative list approach. In other words, by default, all measures will be included unless an exception is mentioned during negotiation. This should make it a lot easier to apply. The negotiations between the provinces, territories and federal government should get underway shortly. Clearly, there is no set schedule for eventually implementing the new agreement.

Some provinces have nonetheless jumped in with bilateral and sometimes even multilateral agreements to deal with some shortcomings in the AIT. For example, the New West Partnership (between British Columbia, Alberta and Saskatchewan) enables collaboration on trade, investment and workforce mobility. Quebec and Ontario have two agreements on workforce mobility, as well as on trade and cooperation. New Brunswick and Nova Scotia have a partnership agreement on regulation and the economy. There is also the Atlantic Procurement Agreement. Quebec and New Brunswick also have an agreement on the opening of public procurement. More recently, Quebec, Ontario and British Columbia entered into an agreement on online wine sales. Under this agreement, consumers from all three provinces can buy wine online from Quebec, Ontario and British Columbia.

## BETTER INTEGRATION WOULD BE A GOOD THING

If the provinces manage to wrap up the CFTA, there is room for hope that it will eventually lead to an increase in interprovincial trade within Canada, thanks to cost decreases, in particular. It goes without saying that consumers and businesses could benefit. Many think that the heightened competition among the provinces could prompt some businesses to become more competitive and efficient, which could also be beneficial in their international trade. Easier access to the entire Canadian market, in conjunction with the free trade agreements with the United States, Mexico and the European Union, could also attract more investment to Canada.

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