

31. Interprovincial Trade Barriers Need to Fall More Quickly to Realize \$200 Billion in GDP Growth for Canada This Decade

Description

Canada is in a productivity crisis. Interprovincial trade in Canada continues to be hampered by a number of policies restricting competition for a few well-connected sectors of our provincial economies. A rise in each province's and territory's GDP would increase overall GDP, improve efficiencies, labour practices, productivity, and make us less reliant on international trade and our lagging innovation economy. In 2024, Statistics Canada computed that these barriers add between 7.8% and 14.5% to goods and services in Canada.¹

Background

Studies estimate an equivalent tariff of 6.9% is imposed on internal borders through current interprovincial trade barriers.^{2 3} Removing that equivalent tariff would put immediate funding back into Canadians' pockets.

There are four categories of interprovincial trade barriers:

Natural

Geographic characteristics, such as distance and configuration of borders.

Prohibitive

Provincial/territorial laws that unintentionally prohibit (or sometimes, intentionally) internal trade, such as restrictions on the sale of alcohol.

Technical

Sector-specific regulations that differ across provinces & territories, such as vehicle weight standards.

Regulatory & Administrative

Provincial and territorial permits, licensing, other paperwork requirements imposed on businesses which operate in multiple jurisdictions such as business registry regulations.

Federal MPs have supported multiple bills in the Commons with little change in legislation^{4 5 6}. In the first 60 days of 2024, Alberta, despite being the most open to trade between provinces and territories⁷, declared a minor trade war on B.C. over direct shipments of wine to consumers in Alberta.

¹ <https://ppforum.ca/publications/atlantic-canada-trade-barriers-economy/>

² Deloitte. "The Case for Liberalizing Interprovincial Trade in Canada". November 2021.

<https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/finance/ca-en-the-case-for-liberalizing-interprovincial-trade-in-canada-aoda.pdf>.

³ CBC, June 14, 2016, MPs debate Conservative motion to refer interprovincial trade to Supreme Court, <https://www.cbc.ca/news/politics/conservative-albas-motion-beer-trade-1.3634759>

⁴ Bill C-260 <https://parl.ca/DocumentViewer/en/43-2/bill/C-260/first-reading>

⁵ "No-brainer that Canadians should be able to buy alcohol online from producers" Globe & Mail January 23, 2021

⁶ Montreal Economic Institute, <https://www.iedm.org/internal-trade-provincial-leadership-index-2023-edition/>

⁷ MEI, op. cit.

Studies suggest Canada's GDP (gross domestic product) would increase by \$110B to \$200B if interprovincial trade barriers were abolished⁸. So, is the issue mechanical or political⁹? Both. Despite years of negotiation and implementation of barrier-removing legislation: TILMA¹⁰, NWPTA¹¹ and Supreme Court decisions, the wrangling continues, and the barriers come down too slowly if at all. Yet, academic research has shown interprovincial trade is 15 times greater in dollar value than international trade in Canada.¹²

What's the status looking across the country?

B.C.

The New West Partnership Trade Agreement (NWPTA) is an accord between the Governments of British Columbia, Alberta, Saskatchewan and Manitoba that creates Canada's largest, barrier-free, interprovincial market. It builds on TILMA (Trade, Investment & Labour Mobility Agreement between B.C. and Alberta). It has certainly helped – plus CFTA, the Canadian Free Trade Agreement¹³ entered into in 2017.

Alberta

Alberta rates highest, as noted, in fostering trade within Canada, and has only six exceptions to the deal (CFTA noted above) down from 25 pre-CFTA. Alberta was found to lag on labour mobility, with the highest number of professional exceptions to mobility rules within CFTA¹⁴. Only Nunavut has no restrictions preventing trained professionals, e.g., nurses, dentists, from practicing after relocation from elsewhere in Canada.

Saskatchewan

Saskatchewan participates in the NWPTA, and with barrier removal, could see a GDP increase similar to that of Newfoundland and Labrador of about 5%.

Manitoba

Manitoba has removed 56% of its listed exceptions to the CFTA, and in January of 2023, took further action to reduce barriers: reducing restrictions for land-surveying corporations; changing location requirements for law firms; and licensing for wild rice harvesting. These recent changes give Manitoba the lowest remaining CFTA exceptions in the country.

Ontario

Ontario would see a smaller gain than some other provinces (2.9%), given their relative larger share of the economy; nevertheless, they would benefit significantly, with a projected GDP increase of \$23M.

⁸ "Suppliers from other provinces that offer direct-to-consumer shipping are in contravention of provincial legislation, are bypassing Alberta's private liquor retailers and liquor agencies, and are impacting the dollars that go to the General Revenue Fund that supports projects and services Albertans rely on," Alberta Gaming, Liquor and Cannabis said January 30, 2024. Calgary Herald, <https://calgaryherald.com/news/local-news/alberta-slams-door-on-b-c-wine-imports-over-direct-to-consumer-sales>

⁹ Trade, Industry and Labour Mobility Agreement: ground-breaking accord between the Governments of Alberta and British Columbia that creates Canada's second largest economy. <http://tilma.ca>

¹⁰ New West Partnership Trade Agreement: created Canada's largest interprovincial free trade zone. It is a ground-breaking economic partnership between the Governments of British Columbia, Alberta, and Saskatchewan. <http://tilma.ca>

¹¹ <https://doi.org/10.2307/136393> Canadian Provinces in World Trade: Engagement and Detachment; Michael A. Anderson and Stephen L.S. Smith, The Canadian Journal of Economics

¹² <https://www.cfta-alec.ca/>

¹³ Internal Trade Provincial Leadership Index – 2023 Edition. <https://www.iedm.org/internal-trade-provincial-leadership-index-2023-edition/>

¹⁴ MEI, 2023, op. cit.

Quebec

At the restrictive end of the spectrum, Quebec's barriers continue to harm the province's economy¹⁵. Currently, 35 exceptions to the CFTA is the most of any province; this number hasn't decreased since 2017. Key restrictions are within the forest industry, and complicated regulations around importing wine from say, B.C. (by air, okay; but no direct delivery). They have a mid-range provincial ranking regarding labour mobility, which continues to feed their labour shortage.

Atlantic Canada

In January 2024, Open Atlantic ¹⁶ noted that changes in the trucking industry particularly (not having to amend weight/length of incoming loads, an issue in other provinces as well) would make business sense.

Percentage increase impact and GDP increase in millions of removing non-geographic trade barriers by province¹⁷:

Province	Percentage	Value
British Columbia	2.8 %	\$7,610
Alberta	3.2%	\$11,107
Saskatchewan	5.1%	\$4,417
Manitoba	7.1%	\$4,832
Ontario	2.9%	\$23,148
Quebec	4.6%	\$18,749
New Brunswick	6.0%	\$2,014
Newfoundland and Labrador	12.8%	\$4,362
Nova Scotia	4.8%	\$1,190
Prince Edward Island	16.2%	\$1,076
Northwest Territories	7.5%	\$576
Yukon	6.9%	\$190

Increasing each province's or territory's GDP might also assist in defusing the often politicized Equalization Program of the Government of Canada; the transfer program for addressing fiscal disparities among provinces. Equalization is financed by the Government of Canada from general revenues, largely raised through federal taxes. Tax revenue also would rise: Alberta estimated: \$1.2B; Quebec \$4.1B. Canadian wages would climb 5.5%; corporate profits up by 2%; federal government revenue up 6.1%; provinces and territories up by 4%.

It is also noted that reducing interprovincial trade barriers would mean flexibility and supply chain efficiencies. The Ontario Trucking Association has published data and recommendations to its report to the Privy Council of Canada (October 2023) highlighting how some barriers could be dismantled.

B.C.'s Ministry of Public Safety and Solicitor General, in a statement January 31, 2024, said it was "actively engaging with the government of Alberta to address the issue and navigate shared concerns related to interprovincial direct-to-consumer wine sales for the benefit of the industry and consumers."

Alberta's recent move may be subject to judicial review. According to Albert J. Hudec, Farris LLP Vancouver, speaking on behalf on B.C. winemakers, Alberta is trying to impose its regulations on another province, yet "Provinces only have jurisdiction over people in the province and activities in the province. Any enforcement action has always been brought against individual consumers, not the wineries."

This fracas is only the most recent salvo fired across interprovincial borders in Canada.

¹⁵ How Breaking Down Trade Barriers Could Supercharge Atlantic Canada's Economy <https://ppforum.ca/publications/atlantic-canada-trade-barriers-economy/>

¹⁶ Deloitte. "The Case for Liberalizing Interprovincial Trade in Canada". November 2021.

<https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/finance/ca-en-the-case-for-liberalizing-interprovincial-trade-in-canada-aoda.pdf>

¹⁷ CFIB, Your Voice – September 2022 survey, September 8-26, 2022.

And why, if liquor control boards also have cannabis under their control, aren't there interprovincial trade barriers on that product? In 2022 the Canadian Federation of Independent Business surveyed small business owners who overwhelmingly supported the removal of internal trade barriers, with 88% of respondents indicating that Canada's governments should prioritize the removal of as many barriers as possible to the flow of goods, services, and workers between provinces and territories¹⁸.

Progress was announced April 15, 2024, at the Canadian Chamber of Commerce's Hill Day, with the opening of the Canadian Internal Trade Data and Information Hub¹⁹. Open and accessible pan-Canadian Hub data will provide insights and help assess opportunities to strengthen internal trade. Not only will it help provincial governments to work together with the federal government, but it will also enable Canadian businesses and workers to make timely choices about where to invest and where to work.

This is a key commitment from the Federal Action Plan to strengthen Internal Trade. The Plan includes these actions:

Action 1: Review of CFTA exceptions within CFTA with participation of all federal ministers responsible

Action 2: Open the Data Hub

Action 3: Stakeholder engagement

Action 4: Barrier identification

Action 5: Enhancement of the Internal Trade Secretariat & the Regulatory Reconciliation & Cooperation Table

These are all wins on current policy brought forward by this Chamber, the B.C. Chamber of Commerce and the Canadian Chamber of Commerce over the past six years. For a potential \$200 billion increase.

The Hub builds on progress from recent Council of the Federation meetings (July, 2022 and November, 2023), where Canada's premiers repeated their commitment to removing labour mobility and internal trade barriers and pushing the federal government to remove constraints related to procurement, directing the federal Regulatory Reconciliation and Cooperation Table to accelerate work underway on developing a potential model for mutual recognition of regulations with a negative option list.

It's time for change.

Recommendations

That the Government of Canada:

Accelerate work underway with the provinces and territories to remove barriers with a goal of zero exceptions in the CFTA by 2028.

¹⁸ Intergovernmental Affairs, <https://www.canada.ca/en/intergovernmental-affairs/news/2024/04/government-of-canada-announces-the-new-canadian-internal-trade-data-hub.html>

¹⁹ The Council of the Federation. News release: Canada's Premiers Discuss Affordability and Global Challenges, July 12, 2022. <https://www.canadaspremiers.ca/summer-meeting-july-11-12-2022-victoria-british-columbia/>