



The case for liberalizing interprovincial trade in Canada

Prepared for the Working Group on
Interprovincial Trade Barriers

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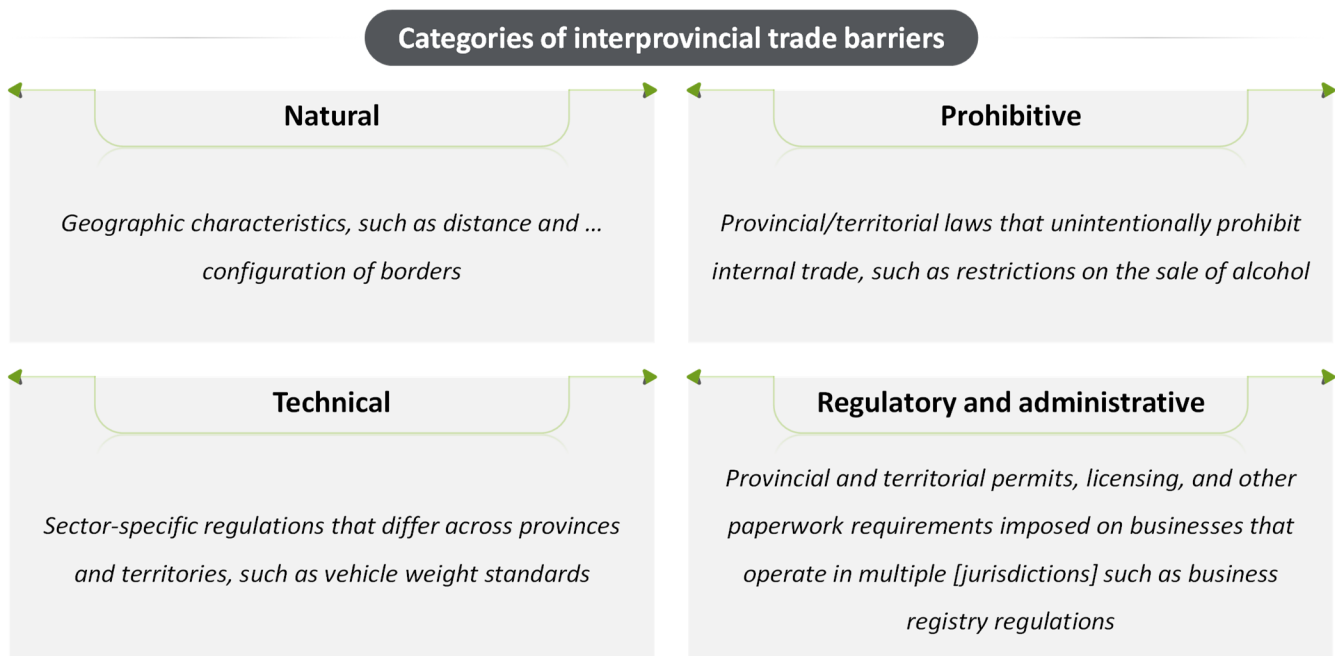
The case for change

While governments across Canada remain focused on economic recovery from the pandemic, longer-term prospects are more challenging. As progress shifts into the expansion phase of the next business cycle, we face slowing growth—due to prior and continued sluggish business investments—and weak productivity growth. In the latest federal budget, released in April 2021, the government committed an additional \$101.4 billion in spending to stimulate the economy. While most of these measures have been focused on energizing short-term recovery, the budget also included \$21 million in federal support to tackle the removal of interprovincial trade barriers. For businesses and industries affected by these restrictions, this is a long-awaited, positive step toward increasing Canada’s competitiveness. Now, we need to see actual progress which will require the engagement of provincial governments and federal collaboration on policy changes.

Understanding interprovincial trade barriers

The challenge of nationwide trade barriers has been a long-standing theme when discussing Canada’s economy and global competitiveness. These challenges can be subdivided into four categories, as seen in figure 1.

Figure 1: Excerpts from Alvarez, Krznar, and Tombe (2019).



Canada is a trading nation. It has argued against protectionist policies of other governments and negotiated free-trade agreements with many of its major trading partners. Clearly, we recognize the value and economic gains of trade. So, it’s remarkable that persistent interprovincial trade barriers—which raise prices and reduce productivity—are allowed to continue. We can estimate the impact these impediments have on prices by comparing trade within and between provinces and territories, allowing us to distinguish the border effect from the impact of the often substantial physical distances between provinces/territories. Studies estimate that the many regulations on interprovincial trade impose the equivalent of a 6.9% tariff on goods crossing these internal borders¹—a premium almost two percentage points higher than our current GST rate. In contrast, there are potentially significant benefits of removing these barriers, with research citing impacts such as increased productivity and labour mobility, as well as a boost to GDP.²

Interprovincial trade barriers have been a Canadian mainstay for decades, even though they represent a steep cost to businesses and consumers. Conversely, removing them presents a potentially significant benefit for the economy. It's now time for us to turn our attention to accelerating this process. As federal, provincial, and territorial governments position themselves for economic recovery, they should cooperate in an attempt to achieve this important goal.



The impact of removing interprovincial trade barriers

Using Alvarez, Krznar, and Tombe's analysis conducted for the International Monetary Fund (IMF) in 2019, along with our national forecast model, we estimate that removing non-geographic trade barriers within Canada—the policy-relevant component—could result in an initial 3.8% lift to the country's real GDP (equalling more than \$80 billion). Representing an impressive increase of \$2,130 per person in real GDP, it's significantly more than the 3% boost seen over the five-year period leading up to the pandemic.

The impact on GDP varies by province and territory, generally with greater benefits to the smaller ones.

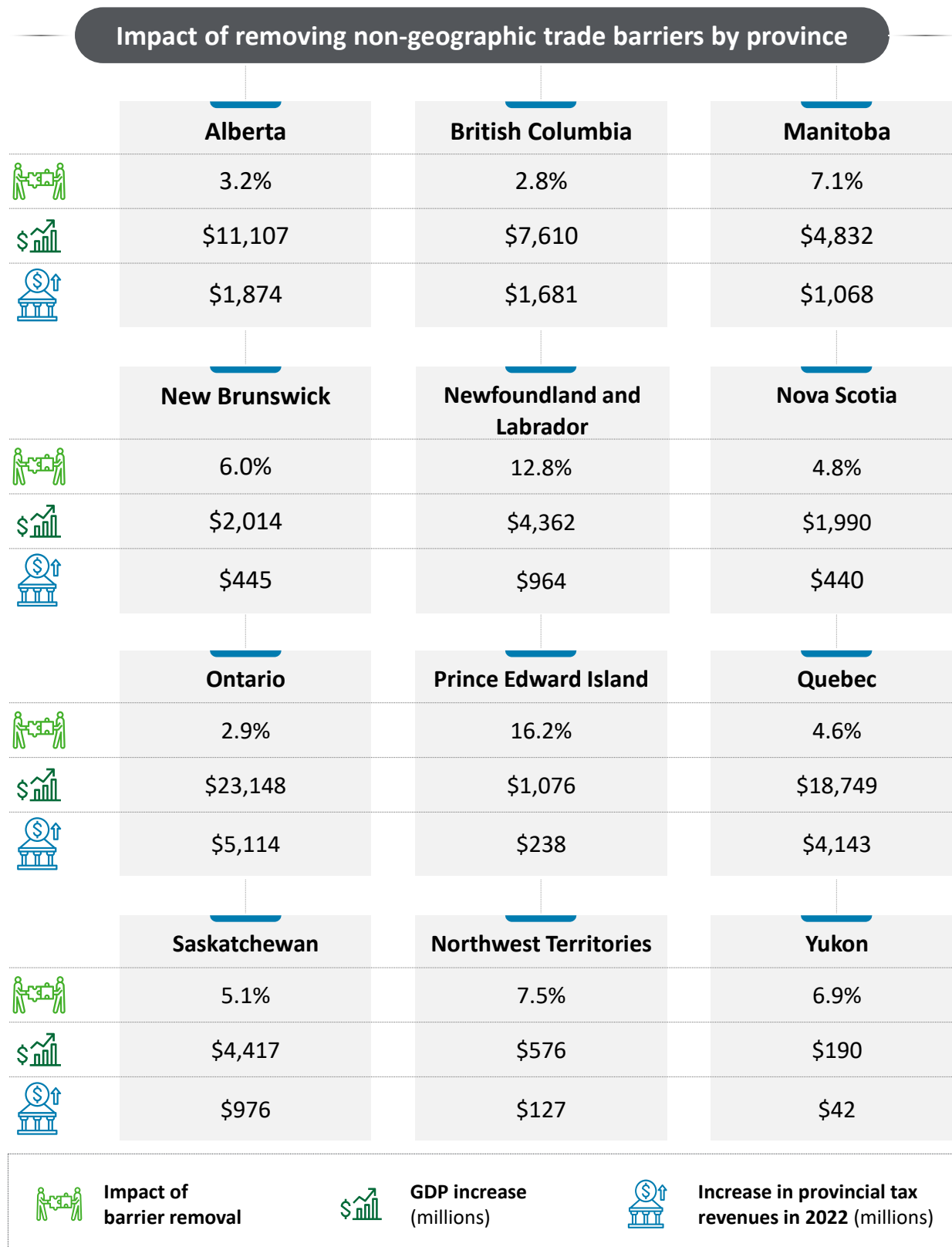
Removing these barriers could increase GDP in Prince Edward Island and Newfoundland and Labrador at rates of **16.2%** and **12.8%** respectively, and **6.9%** and **7.5%** in the Yukon and Northwest Territories, respectively.



Even though Ontario, Quebec, and Alberta will see smaller gains, given their relative larger shares of the economy, they nevertheless stand to benefit significantly, collectively accounting for **66.2%** of the GDP increase, for a total of **\$53 billion**.



Figure 2: From Deloitte analysis, Alvarez, Krznar, and Tombe (2019).

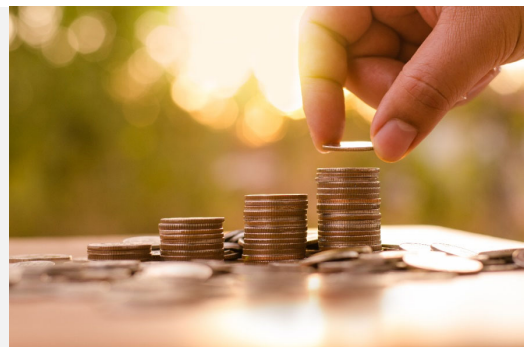


Under these circumstances:

Our modelling suggests average Canadian wages would climb by **5.5%**, resulting in a **5%** increase in household income and more than **\$2,100** in real GDP per person. Corporate profits would increase by **2%**.



Government revenues overall would rise by **4.4%**, with a relatively substantial **6.1%** jump for the federal government and **4%** for the provinces and territories—all of which could provide additional funding for social programming and recovery/stimulus spending.

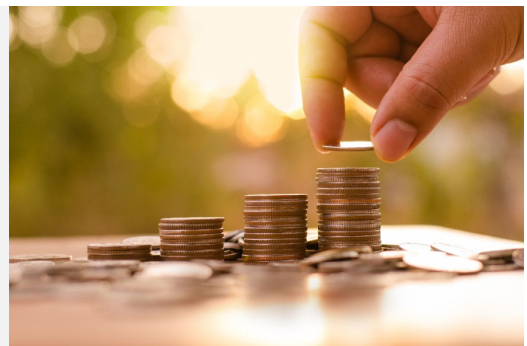


As incomes rise across the country, provincial and territorial governments would see their tax revenues rise. For comparison:

The Alberta **2021–24** Fiscal Plan includes a spending estimate of **\$1.2 billion** on continuing care for **2021–22**, roughly the amount to be gained in provincial tax revenues from barrier removal.



In Quebec, a **\$4.1 billion** boost in tax revenues from barrier removal could more than cover the province's planned spending over the next **four** years to improve health services for vulnerable populations—including special-needs and Indigenous-community services, estimated at **\$3.5 billion**.



Many studies have shown there would be resulting gains to employment and suggest additional benefits could be realized from the cascade effect of reducing barriers for business services. More concrete is that the case for concerted efforts to remove these cross-Canada trade barriers is more relevant today than ever. As countries across the globe position for post-pandemic recovery, every lever should be considered, including increased internal trade.

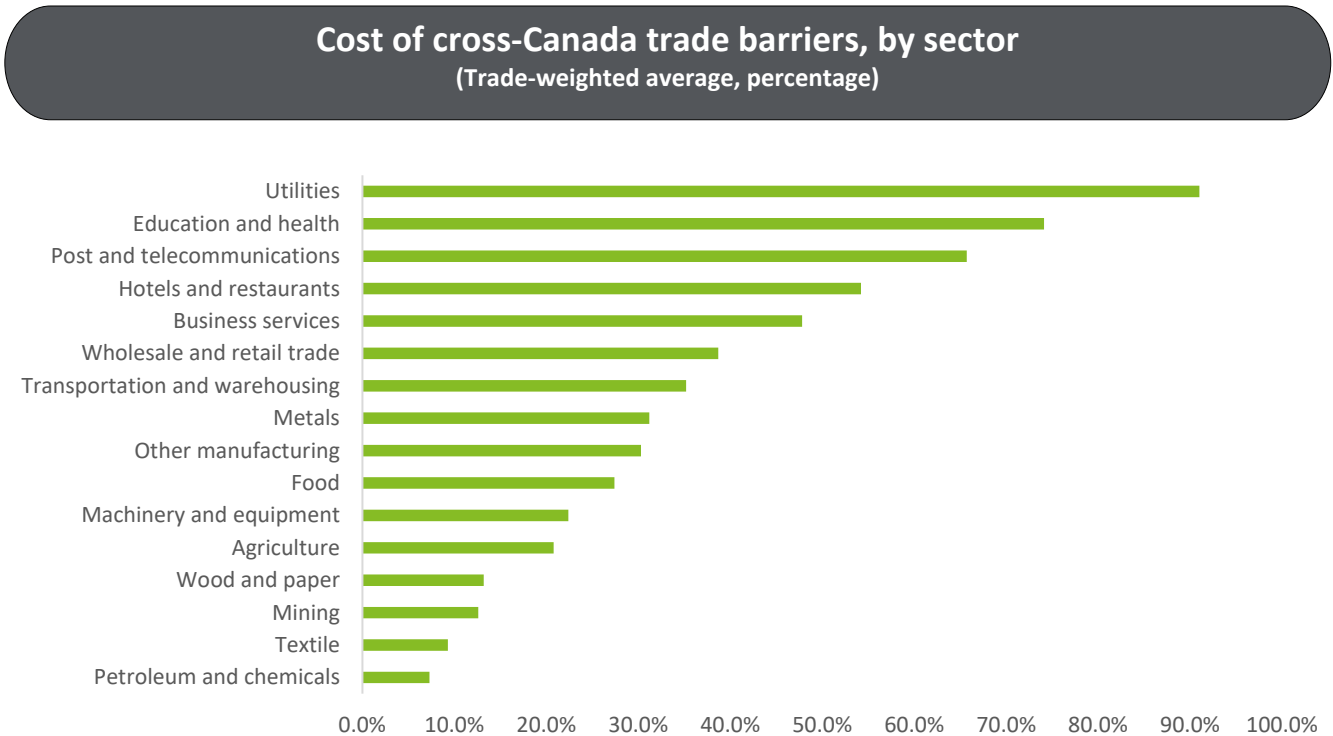
\$ The cost of interprovincial trade barriers, by industry

A study conducted by Statistics Canada compared trade within and between provinces and territories to provide an estimate of the border effect—the degree to which provincial and territorial trade borders dampen provincial trade. Like similar studies, it concluded that cross-Canada trade regulations impose the equivalent of a 6.9% tariff on goods crossing provincial and territorial borders. This border effect contributes to a higher cost of living in Canada—especially when compared with the United States, where this phenomenon is all but insignificant³—and reduces our competitiveness at the international level.

Further analysis completed for the IMF in 2019 identified the trade-weighted costs of interprovincial trade barriers by sector, as seen in figure 3. It revealed a wide range of impacts, with the utilities, education and health, post and telecommunications, hotels and restaurants, and business-services sectors most heavily impacted. In 2015, cross-Canada barriers accounted for 43% of total trade barriers, an average tariff-equivalent of 21%.

The business-services sector is particularly compelling, as it includes services such as legal and accounting, which are among the “largest suppliers of inputs to other sectors.”⁴ Thus, reducing trade costs for highly integrated segments of the economy could have a ripple effect, boosting productivity in other areas, too. Exploring these previously noted sectors further reveals interesting examples of barriers that can result in increased costs for related goods.

Figure 3: From Alvarez, Krznar, and Tombe (2019).





How interprovincial trade barriers affect specific sectors

Alcohol



Despite considerable public attention to this topic, differences in regulations on the consumption and cross-Canada transportation of alcohol remain. As of October 2019, only six provinces—Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, and Saskatchewan—allowed the transportation of unlimited amounts of alcohol across jurisdictions, and only three—British Columbia, Manitoba, and Nova Scotia—allowed direct-to-consumer shipment of wine.⁵ As a result, alcohol prices vary dramatically across the country,⁶ which also leads to higher costs to the hotels-and-restaurants sector—among the hardest hit during the pandemic.

Business services



This sector includes establishments engaged in providing business support services such as preparing documents, operating call centres, collecting unpaid claims, and relaying credit information.⁷ The Canadian Free Trade Agreement (CFTA)—an intergovernmental accord that aims to reduce barriers to trade within the country—includes a variety of stipulations restricting open trade in services. The following are some examples:

- In Manitoba, a corporation seeking to provide land surveying services must include either “Manitoba Land Surveyor,” “Manitoba Land Surveyors,” “Manitoba Land Surveying,” or the initials “M.L.S.” in its name.
- In Newfoundland and Labrador, only a resident of the province is eligible to become a notary public.
- In Ontario, the provincial government reserves the right to require persons registered to solemnize marriages to be Ontario residents.⁸

The financial services sector, except as it relates to labour mobility, is one of the key industries excluded from the CFTA. As a result, no part of the agreement applies to financial services. Instead, as the document states, “within six months of the effective date, Parties shall commence exploratory discussions to assess the incorporation of rules applicable to financial services into this Agreement.”⁹

Business services is an important sector for reform, as it accounts for significant inputs into other industries; additionally, regulatory changes in the sector could create a positive cascade effect.

Transportation and warehousing



Canada's transportation sector is frequently referenced when discussing interprovincial trade, as the industry faces heavy internal regulatory barriers. For example, certain truck configurations (mostly oversized and overweight) must be driven at night in British Columbia but only during the day in neighbouring Alberta, leaving just a small window of time to cross the provincial border. Differences in regulations on fuel-efficient tires across internal borders also cause inefficiencies in the sector.¹⁰ Most of these barriers to trade are regulatory and/or administrative. While some of these have been identified by the CFTA's Regulatory Reconciliation and Cooperation Table, according to the September 2020 update of the 2020–2021 work plan, only one transport agreement has been completed, one has been deferred, and others are slated for completion in December 2021 and December 2022.¹¹ Overall, differences in transportation regulations across the provinces and territories create inefficiencies in the supply chain, resulting in higher costs of goods for consumers.

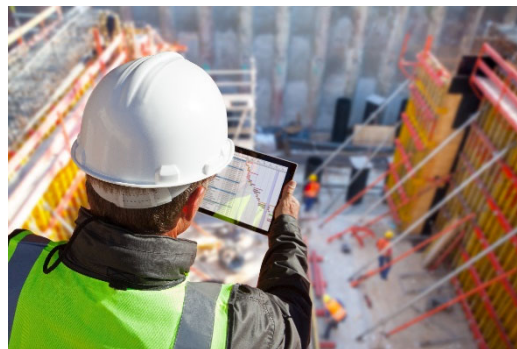


Labour mobility

In principle, the CFTA is intended to improve labour mobility by mandating that a worker certified by one regulatory body be recognized as qualified by other provincial/territorial authorities. However, here, too, exceptions and prohibitive barriers stemming from differences in training curriculums make things more complicated than they may seem.

For example, the agreement allows a province/territory to impose stipulations on working within its jurisdiction, such as that a candidate must pay a separate application or processing fee, obtain insurance, and post a bond.¹²

Aside from the administrative burden, these expenses can add up quickly, resulting in a disincentive or even a true barrier to participating in the labour market beyond one's home province/territory. This can be particularly problematic for towns close to internal borders, where increasing flexibility in work-location options could lead to greater opportunities for labourers.



The agreement also allows for accommodations to its original statement on labour mobility based on differences in educational requirements for a given job, which can make it more challenging for affected professionals to find employment outside of their home provinces/territories. For example, in Quebec alone, the curriculum for Licensed Practical Nurses (LPNs) doesn't cover obstetrics and pediatrics; and in Alberta and Saskatchewan, the educational requirement for social workers is a two-year diploma, which differs from elsewhere in the country.¹³ To explore how national certifications and regulations in the health and education sectors could be implemented for improved labour mobility, it may be helpful to consider the success of the Red Seal trade program.¹⁴

Looking forward, governments should work together to ease labour mobility restrictions in Canada. This may be achieved by ensuring that each province/territory has a clear process for assessing work experience and certifications issued in other parts of the country, and by requiring that each certificate-issuing body explain why its training, education, and other criteria differ from those in other provinces. Then, if these variations are deemed not to be justified, out-of-province/territory certification should be recognized. As Tombe and Schwanen state in a paper for the C.D. Howe Institute, "when Canadians can move from one province to another with minimal barriers, the country as a whole benefits."¹⁵



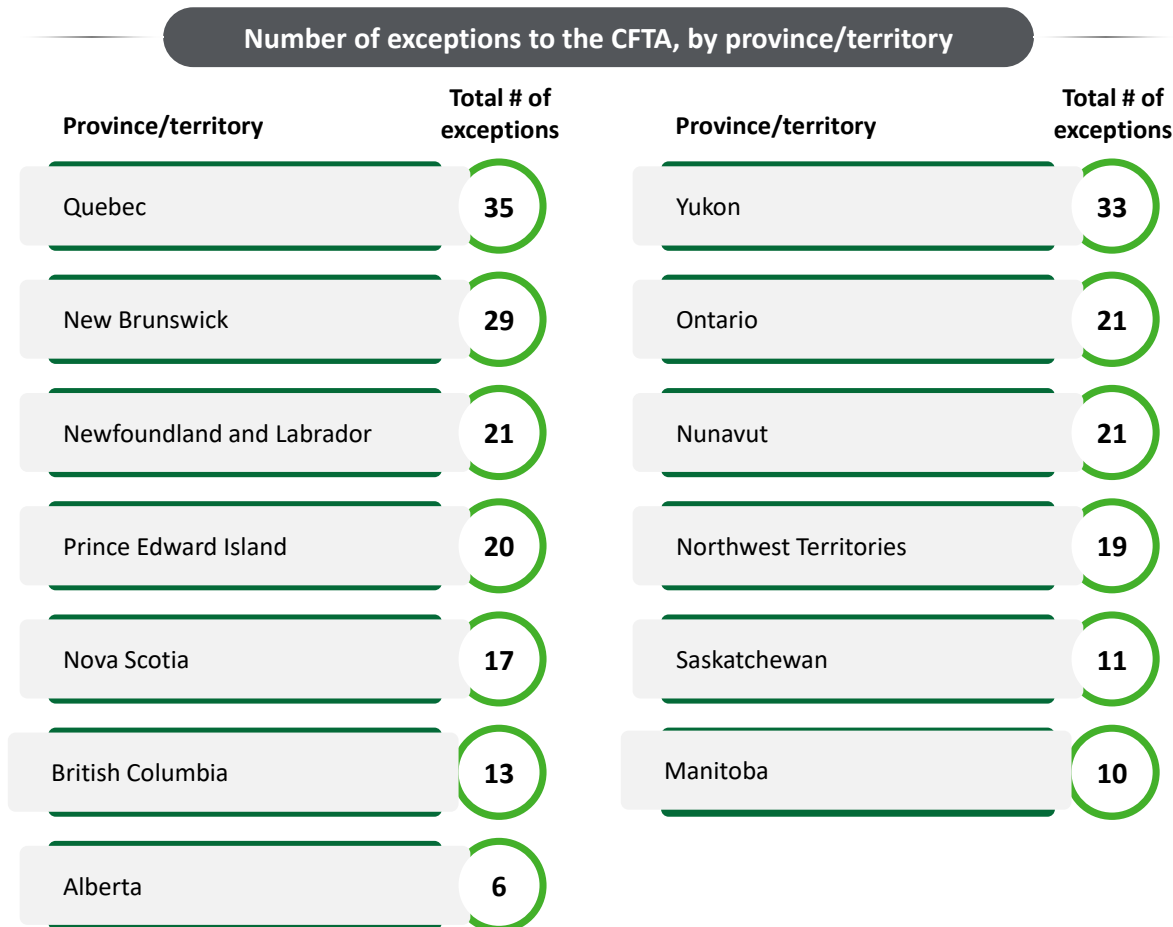
The current state of interprovincial trade barriers

Although some progress has been made in recent years to tackle the issue at hand, Canada still has a long way to go. According to the 2019 World Economic Forum’s Global Competitiveness Index, the country ranked 32nd in domestic competition and 53rd with respect to prevalence of nontariff barriers.¹⁶

The biggest advancement in Canada-wide trade occurred when the CFTA came into effect in July 2017. This agreement took a negative-list approach, meaning that, except for a series of specific circumstances, it would apply to most areas of economic activity in Canada. While this was a considerable improvement over the previous Agreement on Internal Trade (AIT), the list of exceptions by province/territory is nonetheless long. Furthermore, the variation in number of exceptions between the highest- and lowest-ranked provinces is considerable.

Much thought should be given to modernizing the CFTA to make it a more robust free-trade platform. For example, in two 2020 papers for the C.D. Howe Institute, Manucha suggests that the CFTA could be amended to enable increased private-led litigation. Two ideas for such reform are introducing a “loser-pays” provision under the agreement’s dispute-resolution process, and allowing monetary awards to be kept by private parties instead of directed to an internal trade-advancement fund.^{17,18}

Figure 4: From Canadian Free Trade Agreement, consolidated version (January 1, 2021).



Since the CFTA came into force, only Alberta, Manitoba, and Ontario have increased their openness to trade. In six other provinces, however, barriers to trade have grown.¹⁹

A pivot toward multinational treaty-making in the late 1980s set Canada's international trade flows on an upward trajectory, while trade between the provinces and territories has since dipped below the 1980s' levels or remained stagnant.²⁰ However, as the COVID-19 pandemic has shown, international supply chains can be vulnerable, especially in times of crisis—therefore, balancing internal and international trade is an important component of economic security.

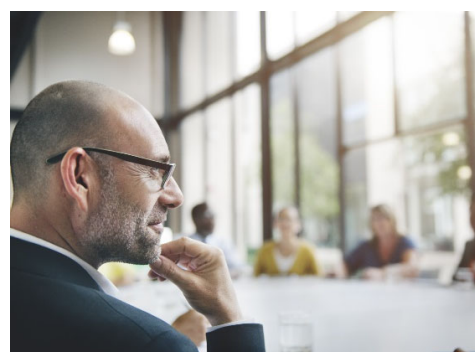


What's next

Some provinces have shown greater initiative than others in overriding exceptions to the CFTA or forming supplementary regional agreements to this effect. For example, the New West Partnership Trade Agreement (NWPTA) between British Columbia, Alberta, Saskatchewan, and Manitoba has been used to justify why these provinces have the fewest exceptions.

Still, in other areas of the economy, efforts toward cooperation on a national scale have been halted, as evidenced by the decision earlier this year to shutter the Capital Markets Authority Implementation Organization (CMAIO).

With the promise of increased funding in the 2021 budget, the Regulatory Reconciliation and Cooperation Table (RCT) established by the CFTA has an important role to play in bringing parties together to tackle the various lists of exceptions. Strong federal and provincial leadership is also required to advance this issue and accelerate the further removal of trade barriers in Canada. As a next step, federal and provincial governments should:



- **Create a public repository of information about trade barriers in Canada.** A searchable public database would help policymakers prioritize their efforts and strengthen the case for reform. Information should include the jurisdiction(s) involved, date of creation, and the purpose, as well as quantitative metrics such as tax revenues. The database could be modelled after those provided by the [Canadian Institute of Health Information](#), an organization whose aim is to accelerate improvements in health care in Canada by collecting, analyzing, and sharing relevant data with citizens and policymakers.
- **Acknowledge the potential of mutual recognition.** Provincial and territorial governments should embrace the principle of mutual recognition for standards and regulations that pertain to the provision of goods and services in Canada. Such a policy would help accelerate the removal of barriers and minimize costs to taxpayers.
- **Collaborate widely on solutions.** Internal trade discussions are too often left to governments, without genuine input from the private sector. To address this, we recommend the creation of a steering committee that includes policymakers, private-sector representatives, and subject-matter experts. Among the committee's roles should be to help focus attention on trade barriers restricting Canada's economic potential. Equally important, the group should build consensus on the policy pathways required to support this removal.
- **Recognize there are costs to unlocking the full economic potential of free trade.** Decisive action will require policymakers to properly account for the costs of increasing free trade in Canada. However, in some cases, bold decision-making may come at political costs. In yet other cases, costs may be administrative or borne by individual workers and/or businesses, and therefore may warrant compensation arrangements to support trade-barrier removals. Canadian governments have extensive experience with negotiating international trade and finding workable solutions for domestic issues, such as Canadian industries and workers fearing commercial harm as a result of our trade policies. We thus believe strongly that the potential benefits of internal trade liberalization far outweigh the costs and that a team-Canada approach can ensure progress.

As provincial/territorial and federal governments seek to rebuild their economies in the wake of the pandemic, the imperative to tackle the issue of interprovincial trade increases. Past obstacles to progress, including lack of political will and lack of data on specific barriers, can no longer be justified, given the potential benefits of updates to these trade-barrier challenges. In fact, economic recovery may serve as a prime opportunity to bring together the many parties and stakeholders required to tackle this complex issue.



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- Canadian Chamber of Commerce
- Canadian Federation of Independent Business
- Canadian Manufacturers & Exporters
- Edmonton Chamber of Commerce
- Canadian Global Cities Council
- Montreal Economic Institute
- New Brunswick Business Council
- Ontario Chamber of Commerce
- Toronto Region Board of Trade



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¹ Robby Bemrose, Mark Brown, and Jesse Tweedle, “Going the distance: Estimating the effect of provincial borders on trade when geography matters,” *Canadian Journal of Economics* 50, no. 3 (2020): 1098–1131.

² Trevor Tombe, “Towards a more productive and united Canada: The case for liberalizing interprovincial trade,” *Achieving the four-day work week: essays on improving productivity growth in Canada, N.A.*, Fraser Institute, 2020: 8, March 4, 2021.

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⁴ Jorge Alvarez, Ivo Krznar, and Trevor Tombe, “Internal trade in Canada: Case for liberalization,” *IMF Working Papers* 158, no. 19 (2019): 1–38.

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¹⁹ Olivier Rancourt and Krystle Wittevrongel, “Internal Trade Provincial Leadership Index,” 2021 edition: 16.

²⁰ Trevor Tombe, “Towards a more productive and united Canada: The case for liberalizing interprovincial trade,” *Fraser Institute*.



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