

Intelligence MEMOS



From: Ryan Manucha
To: Canadian Inter-provincial Trade Watchers
Date: May 23, 2024
Re: RARE AND WELCOME BABY STEPS FOR CANADA'S INTERNAL TRADE CURSE

Canada's eternal inter-provincial trade struggles got a modest boost in last month's budget, which outlined concrete steps to reduce internal barriers that could make a tangible impact.

Provincial protectionism, regulatory capture by interest groups, intra-governmental turf wars, collective action problems, and humankind's general default to inertia have plagued domestic trade liberalization since Confederation. Strong central leadership has always been key to reform, and Ottawa finally seems to be rolling up its sleeves on one of the most intractable issues facing our economic union.

New vocabulary in what has become an obligatory interprovincial trade section of the budget is finally aiming at the right goal: "National regulatory alignment."

Intercolonial tariffs and border agents monitoring the passage of goods between Upper and Lower Canada are long gone, of course. Today the main barrier is differing regulation across Canada. Occupational health and safety, workers' compensation, the weight and dimensions of trucks and endlessly on, a lack of consistency, mutual recognition or both across Canada introduces inefficiencies, inflates business costs and reduces overall productivity. Regulatory misalignment is therefore bad for affordability, competitiveness and prosperity.

The budget also contained a federal commitment to champion "mutual recognition," i.e., provinces recognizing each others' standards for goods, services and labour, without trying to change them. The alternative is harmonization, which does require common standards across governments. Mutual recognition first surfaced in last year's budget with a pledge to "explore" it. That has now moved to "committed" to "advancing" it. Small steps in language but a giant leap for interprovincial trade officials. It would not be surprising to see the topic squarely addressed by the premiers at their Halifax meeting in July.

Officials have been studying how to introduce mutual recognition for several years now. Consensus remains elusive on whether agreements should be cross-economy or sector-specific. And recognition often requires trade officials to liaise with departments throughout their home governments, seek advice and input from technical regulatory experts and reach a provincial position by consensus. Even after agreement, changes in laws and regulations may be needed. Although one study indicated mutual recognition could increase GDP by between 4.4 and 7.9 percent, the Regulatory Reconciliation and Cooperation Table (RCT) has yet to agree on a path forward, which is where federal guidance will help. Details were lacking, but the budget backing is important.

Another helpful initiative was launch of a Canadian Internal Trade Data and Information Hub to gather data that will further reform efforts.

Public discussion about trade barriers has long focused on governments' various opt-outs from the Canadian Free Trade Agreement (CFTA), which went into effect in 2017. These exceptions do impose drag on the economy, but the real mischief is in regulatory misalignments not mentioned anywhere in the agreement.

For instance, it's [estimated](#) that reconciliation of building codes across the country would yield savings on the order of \$1 billion within the first five years, and then annually thereafter. The new trade data hub will guide officials in focusing resources on such issues with the greatest potential to unlock Canadian growth. It will also help people inside and outside government build more compelling cases for reform in the face of entrenched resistance. Name-and-shame has a long history as an effective political tool.

A forthcoming survey of interprovincial trade also announced in the budget should raise the profile of entrenched barriers. Researchers routinely meet small and medium-sized business operators grappling with "bureaucratic red tape" that may in fact be veiled trade barriers – the balkanized system for overweight/oversized vehicle permitting, for instance, or highly variable rules for workers' compensation registration. Trade barriers need to be recognized as such before they can be removed. This survey may even lead to more cases being launched under the CFTA's dispute mechanism, which would be good for the agreement and therefore for liberalization.

Canadians don't have to be told that interprovincial trade barriers are stubborn and harmful. The barriers started going up almost as soon as we got provinces, in 1867. If we're going to be serious about economic growth, Ottawa needs to assume leadership in the exacting technical work of regulatory reconciliation.

Ryan Manucha is a research fellow at the C.D. Howe Institute. His book [Booze, Cigarettes, and Constitutional Dust-Ups: Canada's Quest for Interprovincial Free Trade](#) won the 2022 Donner Prize.

To send a comment or leave feedback, email us at blog@cdhowe.org.

The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.

A version of this Memo first [appeared](#) in the Financial Post.