



MEI

Ideas for a
More Prosperous
Society



**RESEARCH
PAPERS**

MARCH 2021

INTERNAL TRADE PROVINCIAL LEADERSHIP INDEX – 2021 EDITION

By Olivier Rancourt & Krystle Wittevrongel, with the collaboration of Miguel Ouellette



Gare Windsor, Suite 351
1100 Avenue des
Canadiens-de-Montréal
Montreal (QC)
H3B 2S2 Canada

Phone: 514-273-0969
Fax: 514-273-2581
Website: www.iedm.org

The Montreal Economic Institute is an independent, non-partisan, not-for-profit research and educational organization. Through its publications, media appearances and conferences, the MEI stimulates debate on public policies in Quebec and across Canada by proposing wealth-creating reforms based on market mechanisms. It does not accept any government funding.

The opinions expressed in this study do not necessarily represent those of the Montreal Economic Institute or of the members of its board of directors. The publication of this study in no way implies that the Montreal Economic Institute or the members of its board of directors are in favour of or oppose the passage of any bill.

Reproduction is authorized for non-commercial educational purposes provided the source is mentioned.

©2021 Montreal Economic Institute
ISBN 978-2-925043-09-6

Legal deposit: 1st quarter 2021
Bibliothèque et Archives nationales du Québec
Library and Archives Canada
Printed in Canada

Olivier Rancourt
Krystle Wittevrongel

with the collaboration of Miguel Ouellette

Internal Trade Provincial Leadership Index 2021 Edition

Montreal Economic Institute

•
March 2021

TABLE OF CONTENTS

HIGHLIGHTS.....5

INTRODUCTION – AN INCLUSIVE GROWTH OPPORTUNITY
FOR CANADA7

CHAPTER 1 – THE WEALTH OF PROVINCES AND TERRITORIES.....9

CHAPTER 2 – FEW ARE WALKING THE CFTA WALK 15

CONCLUSION 19

ABOUT THE AUTHORS21

Section 121 of the *British North America Act*:

121. All articles of the growth, produce or manufacture of any of the provinces shall, from and after the Union, be admitted free into each of the other provinces.

HIGHLIGHTS

Canada was founded as a country with the vision of creating a single market and eliminating border controls and tariffs between regions. Although there are no internal tariffs as such anymore in this country, each province and territory has over time introduced laws and regulations which hobble the movement of goods and services across borders. Yet Canadians are overwhelmingly in favour of one Canada, one market for goods and services. Burdened with large deficits and weakened growth, the removal of internal trade barriers represents a unique opportunity for an inclusive growth policy.

Chapter 1 – The Wealth of Provinces and Territories

- Specialization and trade are pillars of wealth creation for all nations, regions, provinces, and territories—and less competitive trading partners benefit relatively more from specialization than their more competitive counterparts.
- While it is clear that all the provinces would benefit in terms of GDP per capita from the removal of trade barriers, those that have the most to gain are the poorer ones.
- Some provinces can rely more easily than others upon international trade to compensate for a lack of interprovincial trade, and the most populous provinces, like Ontario and Quebec, have large enough workforces to enjoy a significant level of specialization.
- Using available census data and a recent IMF study, and based on very prudent hypotheses, we calculated the GDP per capita loss due to interprovincial barriers in each province.
- We observed, for example, that if internal trade barriers had disappeared in the year 2000, Prince Edward Island's GDP per capita in 2018 would be only 14% below Ontario's, whereas it is actually 24% lower.
- Along the same lines, Manitoba's GDP per capita would actually have caught up to Ontario's by 2013 in the absence of internal trade barriers, and would have maintained a GDP per capita very similar to Ontario's to this day.
- We also estimated the difference in GDP per capita in 2030 between a scenario in which internal barriers had been eliminated in 2020 and one in which they are left in place.
- In the scenario in which barriers to internal trade remain in place, PEI's GDP per capita in 2030 is more than \$10,000 lower, Newfoundland and Labrador's nearly \$9,000 lower, Manitoba's nearly \$5,000 less, and Saskatchewan's nearly \$4,000 less than in the free-trade scenario.
- For the other provinces, the per capita losses are lower, but always over \$2,000 per person, demonstrating that the stakes are unmistakably high, especially in a post-COVID world, where harsh choices need to be made to help bolster the economy.

Chapter 2 – Few Are Walking the CFTA Walk

- In the 2021 ranking, Alberta is in first place, followed by Manitoba in second place, and British Columbia and Saskatchewan tied for third. Quebec is in last place, with almost six times as many exceptions to internal free trade as Alberta, and Yukon and New Brunswick are not much better.
- Only three provinces, Alberta, Manitoba, and Ontario, have worked to improve their openness to trade since the signature of the CFTA agreement in 2017.
- In the cases of British Columbia and each of the territories, barriers to internal trade have actually increased since the signing of the original CFTA.
- Some provinces could improve their scores significantly, to the great benefit of their taxpayers, simply by removing their procurement exceptions, which have the effect of increasing the operating costs of the various government departments involved.
- The CFTA was a step in the right direction in that it defined a list of goods and services not included in the agreement—the so-called “negative list” approach—contrary to certain prior free trade agreements that included a “positive list” of goods and services subject to the agreement.

Despite the good intentions shown by Canadian provinces and territories in signing the 2017 Canadian Free Trade Agreement, only three have actually walked the walk and reduced their exceptions to internal free trade in the interim. This situation is particularly unfortunate for the less prosperous provinces, which would benefit the most from a true single market from coast to coast to coast. But even the wealthier provinces would see their GDP per capita increase compared to the status quo scenario. In short, the whole country would benefit.

The process of liberalizing internal trade began with Confederation and the elimination of a variety of customs duties between the provinces. The elimination of the CFTA's remaining exceptions is a unique opportunity to embrace a policy of inclusive economic growth for all of Canada. Given the need to plan for a post-COVID economic recovery in a context of international uncertainty and large deficits, this is an opportunity we cannot afford to ignore.

2021 Ranking of the provinces and territories on internal free trade, and change since 2017

2021 Ranking	Province / Territory	Change in ranking since 2017 CFTA
1	Alberta	▲ 9
2	Manitoba	▲ 1
3	British Columbia	▼ 2
	Saskatchewan	▼ 1
5	Nova Scotia	▼ 1
6	Northwest Territories	▼ 1
7	Prince Edward Island	▼ 1
8	Nunavut	▼ 2
	Newfoundland and Labrador	no change
	Ontario	▲ 1
11	New Brunswick	no change
12	Yukon	no change
13	Quebec	no change

Sources: Canadian Free Trade Agreement, Consolidated Version, April 19, 2017; Canadian Free Trade Agreement, Consolidated Version, January 1st, 2021.

INTRODUCTION

An Inclusive Growth Opportunity for Canada

The MEI's first *Internal Trade Provincial Leadership Index* was published in 2019,¹ two years after Canada's provinces and territories renewed their commitment to internal free trade through the Canadian Free Trade Agreement (CFTA).² This was indeed a renewal, since Canada was founded as a country with the vision of creating a single market and eliminating border controls and tariffs between regions.³ Since the original inter-governmental trade agreement entered into force in 2017, two additional versions have been released, the most recent in January 2021.⁴

One of the primary purposes of Confederation was to create one single market following the end of the Reciprocity Treaty with the United States in 1866,⁵ which had allowed the free movement of certain goods between the colonies of British North America and the United States.⁶ By uniting to form a confederation, the British colonies created between themselves a stable internal market sheltered from the vagaries of international politics. This provided economic protection from the disengagement of the British, who wanted to reduce their economic obligations in the colonies.⁷

Although there are no internal tariffs as such anymore in this country, each province and territory has over time introduced laws and regulations which hobble the movement of goods and services across borders. Ironically, as international and interregional trade agreements have removed barriers between countries, and Canada has enjoyed fruitful exchanges with trading partners around the world,⁸ barriers within Canada have tended either to be raised or maintained. Differing safety standards, technical standards, occupational licensing, and residential obligations—and even outright

protectionism—have created artificial costs for Canadians as producers, consumers, and taxpayers, thereby reducing their standard of living.

For example, the only way to work on a Quebec construction site with qualifications from another province is via a complex administrative process to obtain recognition of your qualifications, despite the fact that the Commission de la Construction du Québec recognizes work experience acquired in the other provinces as valid for the purposes of obtaining the equivalent Quebec qualifications.⁹ Each province in the country has similar rules and standards that prevent the free movement of goods and services, including labour. These are very costly in terms of time and money for companies that want to do business in several provinces, and they also indirectly penalize taxpayers.

One of the primary purposes of Confederation was to create one single market.

There has also been a great loss of opportunity for communities within Canada that would most benefit from the elimination of trade barriers. Indeed, provinces and territories are not equal in terms of the impediment that trade barriers represent to their productivity and wealth. For example, we found that while all provinces would benefit from interprovincial free trade to some extent, provinces such as Manitoba and Prince Edward Island would benefit much more than Ontario, Alberta, British Columbia, and Quebec.

Canadians Want Internal Free Trade

In line with the vision that first united the country, Canadians are overwhelmingly in favour of one Canada, one market for goods and services. According to a 2020 MBA Recherche poll:¹⁰

- Nine in ten Canadians (89%) believe interprovincial free trade is important.

1. Mark Milke, *Internal Trade Provincial Leadership index*, MEI, Research Paper, November 2019.

2. *Canadian Free Trade Agreement, Consolidated Version*, April 19, 2017.

3. Janet Aizenstat, et al. (eds.), *Canada's Founding Debates*, Stoddart, 1999, p. 135.

4. *Canadian Free Trade Agreement, Consolidated Version*, January 1st, 2021.

5. The Canadian Encyclopedia, "Confederation, 1867," March 31, 2017.

6. The Canadian Encyclopedia, "Reciprocity," November 12, 2019.

7. The Canadian Encyclopedia, *op. cit.*, footnote 5.

8. Government of Canada, Business and industry, International trade and investment, Trade negotiations and agreements, Canada and the World Trade Organization (WTO), January 19, 2021.

9. Commission de la Construction du Québec, Qualification et accès à l'industrie, Reconnaissance de la formation et de l'expérience de travail, 2021.

10. MBA Recherche, *Canadians' Attitudes Towards Interprovincial Free Trade*, poll conducted on behalf of the Canadian Constitution Foundation, October 14, 2020, pp. 32, 38, 39, 55, 58, 59, and 63.

- The vast majority (84%) think they should be able to exchange goods and services anywhere within Canada without restrictions.
- 82% think we should be able to take alcohol freely from one province to the next.
- 82% of Canadians would feel comfortable being treated by a nurse practitioner trained in a different province.
- The large majority (84%) believe Canadian-trained tradespeople such as welders should be allowed to work in any province if it helps to drive down the cost of building roads, schools, and housing.
- Four in five Canadians (81%) support harmonized national regulations for truckers if this results in more affordable products.
- After being exposed to information about interprovincial free trade, most Canadians (79%) support reducing interprovincial trade barriers.

In a post-COVID age, burdened with large deficits and weakened growth, the removal of internal trade barriers represents a unique opportunity for an inclusive growth policy that is fully under Canadians' control. Given geopolitical and international trade uncertainty, the ability to take advantage of our own internal growth potential becomes all the more important.

Comparing Provinces: The Internal Trade Provincial Leadership Index

In this Index, the provinces and territories are given an overall score based on the total number of exceptions to free trade they maintain, broken down by category, as per the CFTA's typology. In general, the progress of the signatories to the 2017 CFTA has been disappointing. Only three provinces, Alberta, Manitoba, and Ontario, have progressed in the spirit of the agreement and reduced the number of barriers they maintain, while British Columbia and the territories have actually increased barriers to trade since the signing in 2017.

Canadians are overwhelmingly in favour of one Canada, one market for goods and services.

Given the substantial gains stemming from the opening up of interprovincial trade for the economic growth of all parts of the country, this second edition of our internal trade ranking should serve as a wake-up call for those provinces and territories not working to reduce and eliminate the different barriers that exist.

CHAPTER 1

The Wealth of Provinces and Territories

Specialization and trade—also known as the division of labour—are pillars of wealth creation for all nations, regions, provinces, and territories. This fact is based upon the analysis of comparative advantage according to which the more that communities specialize in tradable goods and services, the wealthier they become. This is true locally, nationally, and internationally.

Furthermore, and contrary to a persistent myth, less competitive trading partners benefit relatively more from specialization than their more competitive counterparts. To put it differently, even in a world where your trading partners are better than you at producing anything, you can still improve your standard of living by specializing in those activities for which the competitive gap is the narrowest. It is in your trading partners' interests to abandon some of their own production and buy from you instead, because they can make better use of the capital and labour until now invested in the line of production you decide to specialize in.

Consider, for example, a medical doctor's private practice. It is possible that the doctor may be able to answer more calls and make more appointments than a typical secretary on any given day, or clean the premises better and faster than the average janitor. However, it is still better for everyone if the doctor recruits employees and delegates these tasks in order to spend more time diagnosing and treating patients.

Economic Growth and Reduced Disparity

Until recently, the cost of non-tariff trade barriers (NTBs) was estimated in terms of foregone GDP at the country level,¹¹ but rarely assessed for subnational areas like provinces and territories separately. The consensus among scholars is that the estimated economic cost of these barriers for Canada as a whole is around 4% of the country's GDP.¹²

A 2013 study from the University of Calgary¹³ pointed out that the impact of Canada's internal NTBs varies substantially from one province or territory to another. As per a 2019 International Monetary Fund (IMF) study,¹⁴ once natural barriers such as long distances, difficult terrain, or the absence of adequate transportation infrastructure are taken into consideration and separated from other growth factors, the specific effect of artificial NTBs can be isolated and measured (see Table 1-1).

Specialization and trade are pillars of wealth creation for all nations, regions, provinces, and territories.

While it is clear that all the provinces would benefit in terms of GDP per capita from the removal of trade barriers, the provinces that have the most to gain are the poorer ones, like Prince Edward Island with a 16.2% gain, Newfoundland and Labrador¹⁵ with 12.8%, Manitoba with 7.1%, and New Brunswick with 6.0%. Even for richer provinces like British Columbia, Alberta, and Ontario, the figures are 2.8%, 3.2%, and 2.9% respectively, which nonetheless represent significant GDP per capita gains. Quebec would have the most to gain among the larger provinces, with a 4.6% increase in GDP per capita. Ending internal trade barriers is therefore an effective way to increase our prosperity, with the increase for Canada as a whole being 3.8%, all while reducing economic disparities across the country.

Canadian commercial GDP is the sum of international trade, interprovincial trade, and intra-provincial trade, the latter being what is produced and consumed locally within each province or territory. While interprovincial trade accounted for a trade flow of \$800 billion dollars in 2017,¹⁶ some provinces can rely more easily than others upon international trade to compensate for a lack of interprovincial trade. They can buy abroad what it is less convenient to buy in Canada. Typically, having a

11. Alan V. Deardorff and Robert M. Stern, *Measurement of Non-Tariff Barriers*, OECD Economics Department Working Papers, No 179, 1997, p. 18.

12. Jorge Alvarez, Ivo Krznar, and Trevor Tombe, *Internal Trade in Canada: Case for Liberalization*, IMF Working Paper, July 2019, p. 31.

13. Trevor Tombe and Jennifer Winter, *Internal Trade and Aggregate Productivity: Evidence from Canada*, Preliminary version, February 2013, p. 1.

14. Jorge Alvarez, Ivo Krznar, and Trevor Tombe, *op. cit.*, footnote 12, p. 4.

15. Note that while Newfoundland and Labrador's GDP per capita would rank it among the richer provinces, its market income per capita (total income less government transfers) place it in the bottom half. Statistics Canada, Table 11-10-0190-01: Market income, government transfers, total income, income tax and after-tax income by economic family type, February 25, 2021.

16. Jorge Alvarez, Ivo Krznar, and Trevor Tombe, *op. cit.*, footnote 12, p. 7.

Table 1-1

Gain from eliminating non-geographic barriers for goods between Canadian provinces	
Provinces	Real GDP per capita, % change
British Columbia	2.8
Alberta	3.2
Saskatchewan	5.1
Manitoba	7.1
Ontario	2.9
Quebec	4.6
New Brunswick	6.0
Nova Scotia	4.8
Prince Edward Island	16.2
Newfoundland and Labrador	12.8
CANADA	3.8

Source: Jorge Alvarez, Ivo Krznar, and Trevor Tombe, *Internal Trade in Canada: Case for Liberalization*, IMF Working Paper, July 2019, p. 24.

direct border with the United States, a seaport, or an international airport is a clear advantage in this regard.

Also, the most populous provinces, like Ontario and Quebec, have large enough workforces to enjoy a significant level of specialization intra-provincially, and so are relatively less affected by interprovincial trade restrictions.

While all the provinces would benefit from the removal of trade barriers, those that have the most to gain are the poorer ones.

Internal barriers to trade undermine both wealth and productivity. They affect wealth, because firms cannot fully access economies of scales at the national level, and consumers therefore do not enjoy the best possible value for their money. Typically suffering from this predicament is the logistics industry. For example, some trucks with high-tech fuel-efficient tires can only be driven in certain provinces. This results in truckers having to swap tires out at the border or remove cargo from one

truck and load it onto another, a clear obstacle to inter-provincial trade.¹⁷ Consequently, the industry is more fragmented and less efficient than it could be. This extra cost ends up being reflected in retail prices.

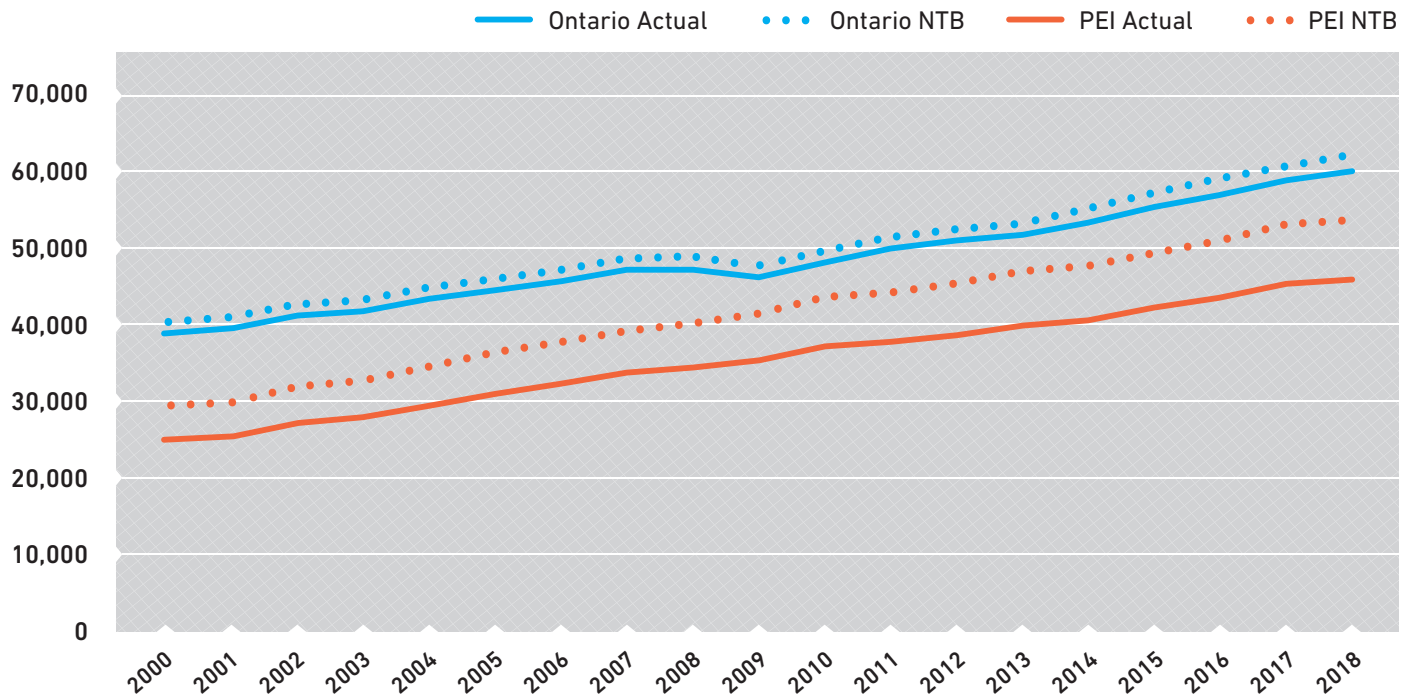
Barriers hurt productivity because returns on investment are subpar, so capital expenditures in local production are not what they could be. Productivity depends on the level of capital (including human capital) available for production, and salaries are heavily correlated with productivity. Barriers to interprovincial trade ultimately diminish people's standard of living by reducing their purchasing power.

As far as provincial and territorial growth is concerned, both wealth and productivity levels come into play, since a more productive population enjoys a faster growing GDP per capita. Consequently, if we envision a complete removal of all trade barriers in Canada, not only would the GDP per capita of each province be enhanced, but their productivity and corresponding growth rates would also increase.

17. Senate of Canada, *Tear Down Those Walls: Dismantling Canada's Internal Trade Barriers*, June 4, 2016, p. 51.

Figure 1-1

Comparison of GDP per capita, Ontario vs. PEI, with and without internal trade barriers



Sources: Author's calculations; see Technical Annex on the MEI's website for details. Jorge Alvarez, Ivo Krznar, and Trevor Tombe, *Internal Trade in Canada: Case for Liberalization*, IMF Working Paper, July 2019, p. 24; Statistics Canada, Table 17-10-0009-01: Population estimates, quarterly, March 2, 2021; Statistics Canada, Table 36-10-0222-01: Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000), March 2, 2021.

Focus on PEI and Manitoba

Using available census data,¹⁸ we reconstructed the GDP per capita for each province and territory since 2000.¹⁹ Then, we updated the figures with incremental GDP per capita reflecting the underlying loss due to interprovincial barriers incurred separately by each province as per the IMF study mentioned above.

The hypotheses used in the model are prudent. They do not take into consideration the permanent annual gains in GDP per capita associated with the increase in interprovincial trade that would result from the opening of borders. Neither do they take into account the resulting increased production. These additional gains were excluded in order to guard against unrealistic upward trends in our estimates. Furthermore, these numbers do

The most populous provinces, like Ontario and Quebec, have large enough workforces to enjoy a significant level of specialization.

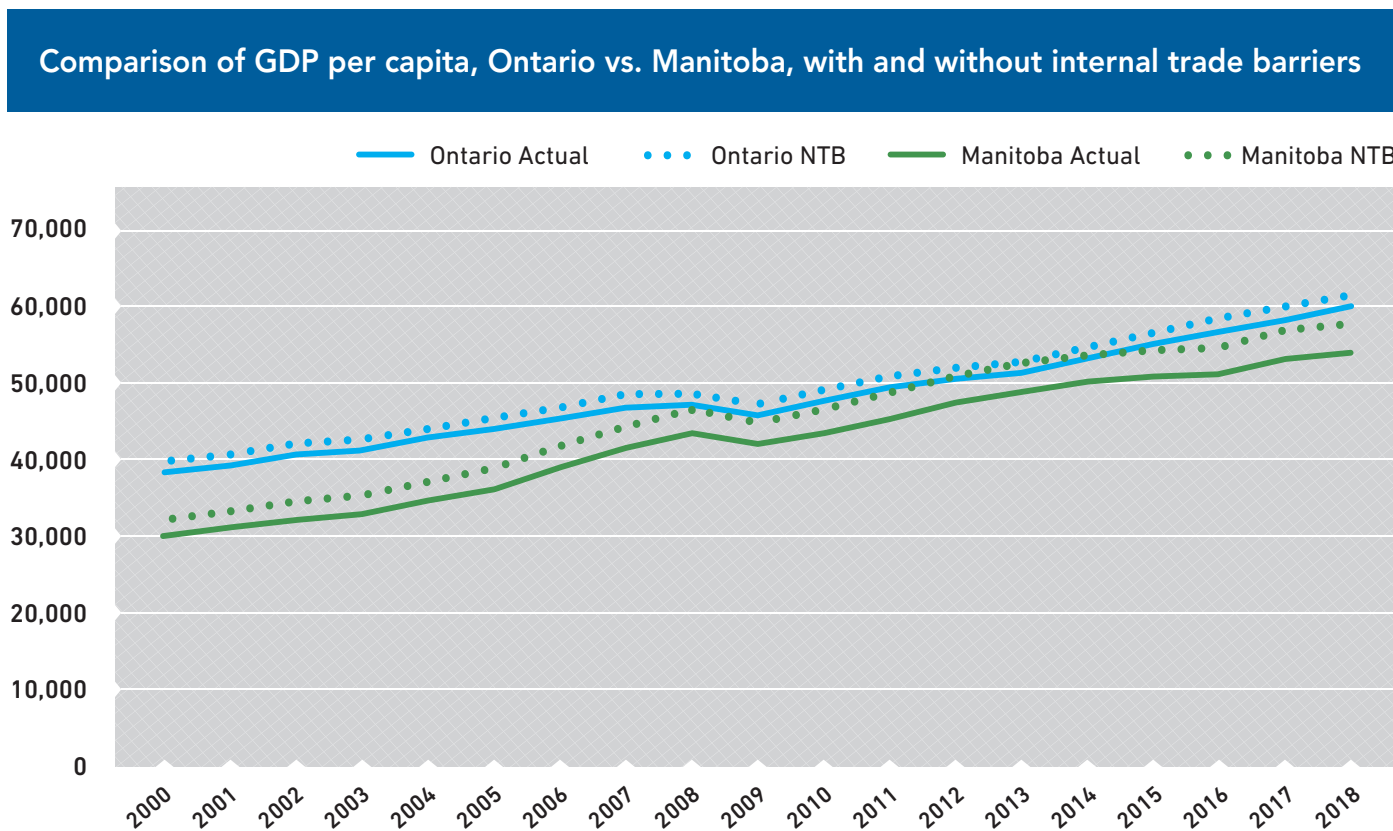
not include gains from freeing up trade for services, since the gains from Table 1-1, upon which our calculations are based, only include an opening up of trade for goods. It should thus be expected that the real annual GDP per capita gains would be even higher than those we have estimated.

In our model, we observed that if internal trade barriers had disappeared in the year 2000, Prince Edward Island's GDP per capita in 2018 would be only 14% below Ontario's, whereas it is actually 24% lower (see Figure 1-1). As just mentioned, this is a very prudent estimate, and so Prince Edward Island would actually have made up even more ground. This shows how the opening up of interprovincial trade, while benefiting all provinces

18. Statistics Canada, Table 17-10-0009-01: Population estimates, quarterly, March 2, 2021.

19. Statistics Canada, Table 36-10-0222-01: Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000), March 2, 2021.

Figure 1-2



Sources: Author’s calculations; see Technical Annex on the MEI’s website for details. Jorge Alvarez, Ivo Krznar, and Trevor Tombe, *Internal Trade in Canada: Case for Liberalization*, IMF Working Paper, July 2019, p. 24; Statistics Canada, Table 17-10-0009-01: Population estimates, quarterly, March 2, 2021; Statistics Canada, Table 36-10-0222-01: Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000), March 2, 2021.

and territories, would significantly reduce wealth inequalities between them.

Along the same lines, Manitoba’s GDP per capita would actually have caught up to Ontario’s in the absence of internal trade barriers (see Figure 1-2). Specifically, we can observe that Manitoba would have caught up by 2013, and would have maintained a GDP per capita very similar to Ontario’s to this day. Once again, this illustrates how the impact of opening up interprovincial trade would reduce wealth inequalities within Canada.

The Free Trade Future

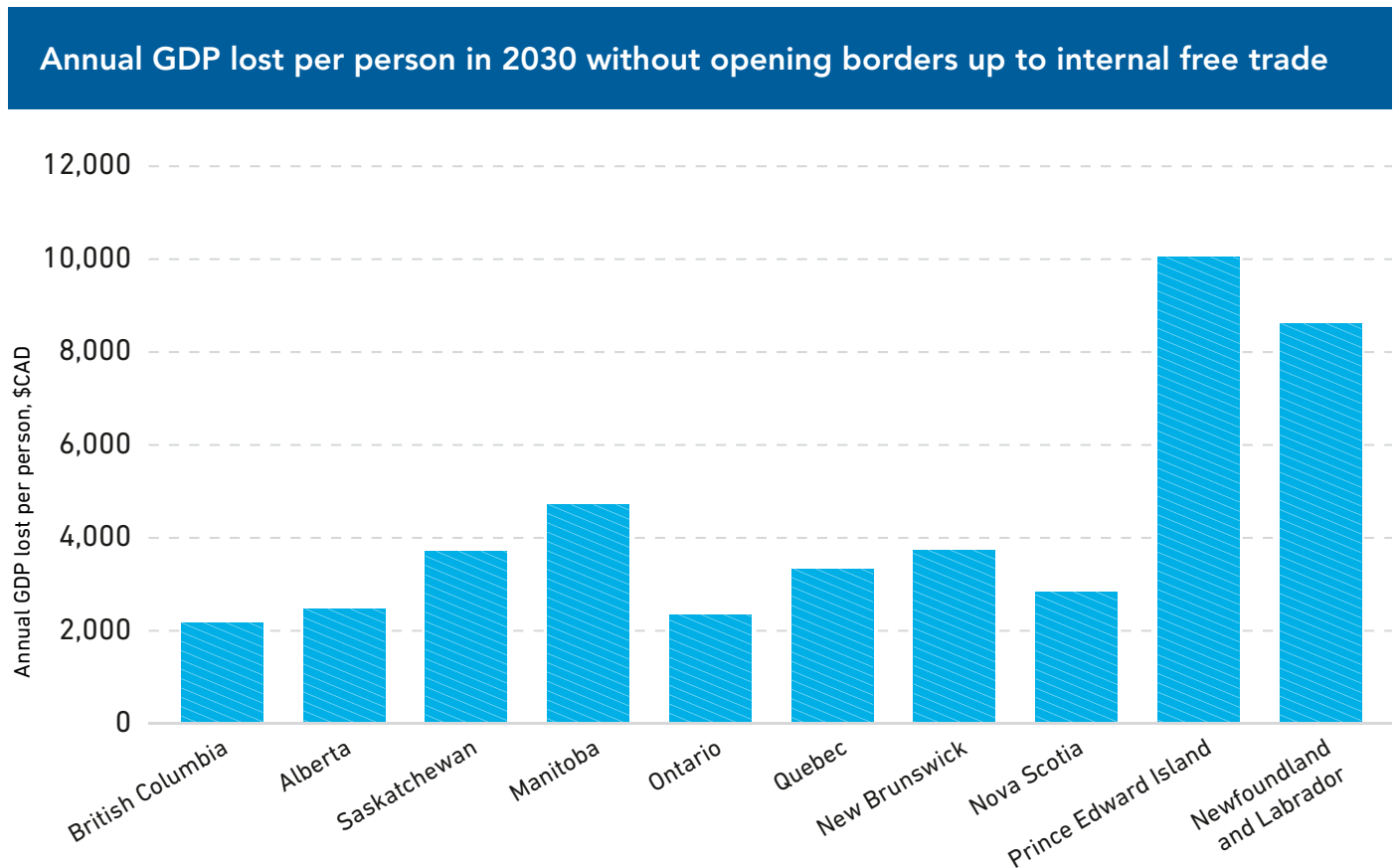
Another way to quantify the cost of maintaining barriers to trade between the provinces is to estimate the difference in GDP per capita in 2030 between a scenario in which internal barriers had been eliminated in 2020 and one in which they are left in place. The estimated annual loss in GDP per capita for all provinces are shown in Figure 1-3. We posited an opening of borders in 2020 while maintaining the trends of the past ten years in

If internal trade barriers had disappeared in the year 2000, Prince Edward Island’s GDP per capita in 2018 would be only 14% below Ontario’s.

terms of annual GDP per capita growth. Once again, these hypotheses are very prudent, and do not consider permanent gains to growth associated with increased trade between the provinces.

In the scenario in which barriers remain in place, Prince Edward Island’s GDP per capita in 2030 is more than \$10,000 lower than in the free-trade scenario, representing a real annual GDP loss of over \$1.7 billion for the province. For Newfoundland and Labrador, the GDP per capita shortfall is nearly \$9,000, for a real annual GDP loss of almost \$5 billion for the province. Manitoba has nearly \$5,000 less in GDP per capita in 2030 and Saskatchewan nearly \$4,000, for real annual GDP losses of \$7.4 billion and \$5.1 billion, respectively. For the

Figure 1-3



Sources: Author's calculations; see Technical Annex on the MEI's website for details. Jorge Alvarez, Ivo Krznar, and Trevor Tombe, *Internal Trade in Canada: Case for Liberalization*, IMF Working Paper, July 2019, p. 24; Statistics Canada, Table 17-10-0009-01: Population estimates, quarterly, March 2, 2021; Statistics Canada, Table 36-10-0222-01: Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000), March 2, 2021.

other provinces, the per capita losses are lower, but always over \$2,000 per person.

Manitoba's GDP per capita would actually have caught up to Ontario's in the absence of internal trade barriers.

It is clear, then, that not embracing free internal trade comes with substantial costs for provinces. The potential gains could make the difference in the post-COVID economic recovery, especially with the deficits of certain provinces reaching record heights since the start of the crisis.²⁰

The stakes are unmistakably high. The average GDP per capita gain for the country as a whole is 3.8% (see

Table 1-1). In a post-COVID world, where harsh choices need to be made to help bolster the economy, the best course of action is clear. Unfortunately, so are the disappointing results achieved so far by most of the signatories to the 2017 Canadian Free Trade Agreement. Most have not made any improvements whatsoever since the signing of the document, as we shall see in the next chapter.

20. Mathieu Dion and Anne Marie Lecomte, "Un 'déficit historique' de 14.9 milliards de dollars à Québec," Radio-Canada, June 19, 2020.

CHAPTER 2

Few Are Walking the CFTA Walk

The 2021 ranking of Canada’s provinces and territories in terms of leadership on internal free trade looks much like the 2019 edition. As Figure 2-1 shows, Alberta is in first place, followed by Manitoba in second place, and British Columbia and Saskatchewan tied for third. Quebec is in last place, with almost six times as many exceptions as Alberta—and Yukon and New Brunswick are not much better.

Figure 2-2 provides more detail, showing what has changed since 2017 and breaking down the provinces’ scores by type of exception, as per the CFTA categorization: procurement, existing exceptions, and future exceptions.

The main conclusion to be drawn is that only three provinces, Alberta, Manitoba, and Ontario, have worked to improve their openness to trade since the signature of the CFTA agreement in 2017. For all the other provinces, there have been very few concrete attempts to reduce the number of barriers to internal trade since then, despite the modification of certain stipulations to streamline some rules. In the cases of British Columbia and each of the territories, barriers to internal trade have actually increased since the signing of the original CFTA.

Alberta has jumped from its initial 10th position in 2017 to 1st position today, with only six remaining exceptions to internal free trade. Manitoba improved from 3rd place in 2017 to 2nd place today. With Ontario’s reduction of a couple of internal trade barriers, it has improved from 9th place to 8th place (in a three-way tie with Newfoundland and Labrador and Nunavut). None of the other provinces or territories have shown any progress on reducing their number of internal trade barriers since 2017, and British Columbia, formerly in 1st place, has fallen to a tie with Saskatchewan for third. Table 2-1 shows the ranking of the provinces and territories for 2021, as well as changes in ranking since 2017.

Procurement Exceptions

Alberta and Manitoba are also the only provinces or territories that now have no procurement exceptions to internal trade. This means that their respective governments can buy goods and services from any Canadian supplier, regardless of where in Canada it happens to be located. Some provinces could improve their scores significantly,

to the great benefit of their taxpayers, simply by removing their procurement exceptions.

Not only are these exceptions very costly, but many of them have no justification beyond pure economic protectionism. This protectionism has the effect of increasing the operating costs of the various government departments involved. These higher costs penalize the taxpayers of the provinces concerned, since public finances are not managed as efficiently as they could be.

Quebec has ten procurement exceptions, most exempting the National Assembly and certain government agencies from the need to make Canada-wide calls for tender. For example, these allow Hydro-Québec, a government monopoly, to deal exclusively with entrepreneurs located in the province for various specific sectors including civil engineering and IT support.²¹ By allowing firms outside Quebec to submit bids for public contracts, the monopoly’s administrative costs would fall with the increased competition, and Quebecers would save more money as these cost reductions were passed on to them through their electricity bills.

Alberta is in first place, followed by Manitoba in second place, and British Columbia and Saskatchewan tied for third.

New Brunswick is the province with the most procurement exceptions. For instance, the government reserves the right to prohibit companies from outside the province from bidding on public contracts for any program aiming to help small businesses or rural regions.²² It also reserves this same right for contracts worth less than one million dollars. These protectionist measures just penalize New Brunswick taxpayers, who must pay more for their government’s operations.

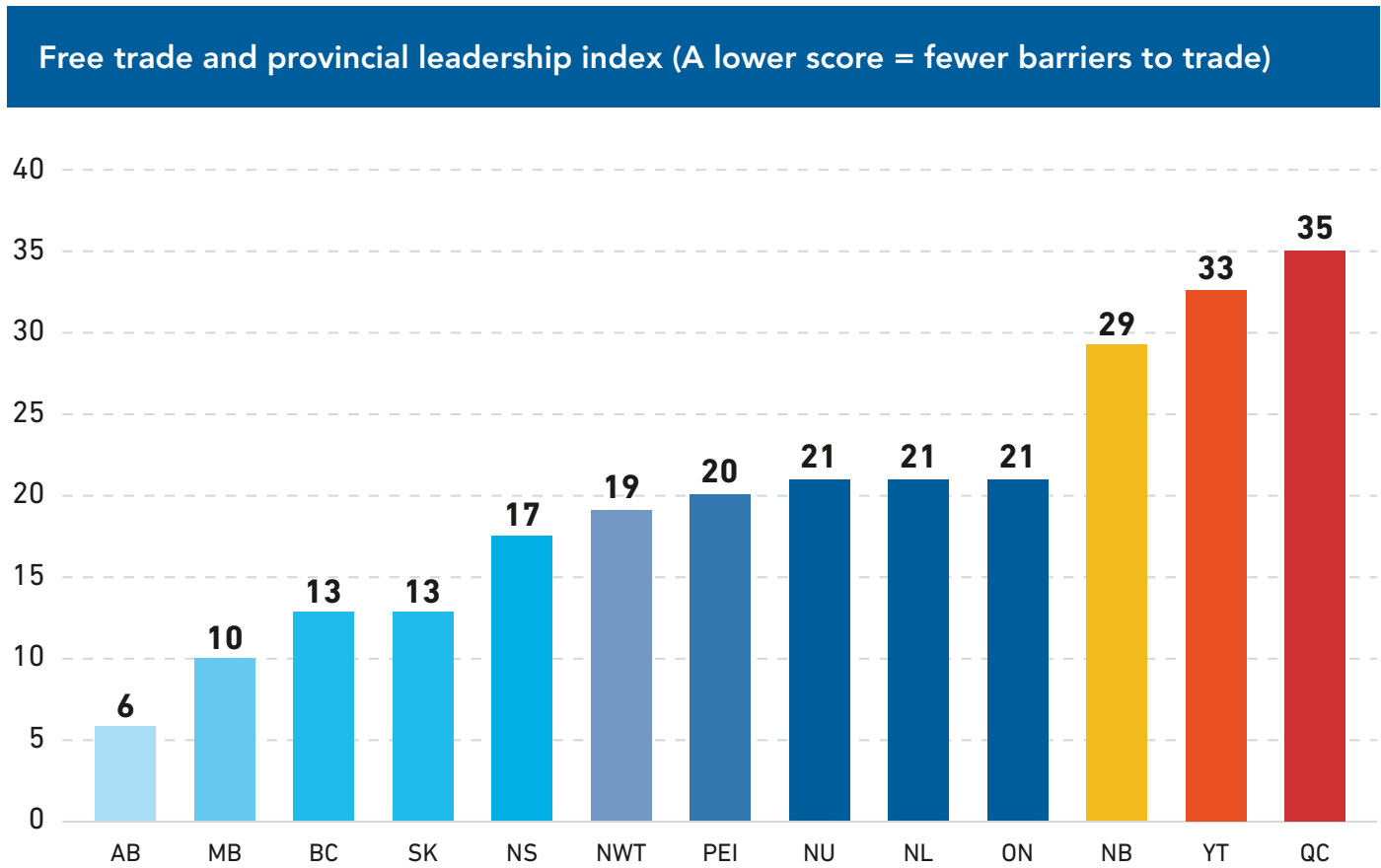
Other Exceptions

Among the other clauses included in the CFTA are future exceptions and existing exceptions. The latter concern a series of already existing laws authorizing or requiring the provinces to give preferential treatment to

21. *Canadian Free Trade Agreement, Consolidated Version, January 1st, 2021*, p. 60.

22. *Ibid.* p. 65.

Figure 2-1



Note: Each province's score represents the number of exceptions to internal free trade in the CFTA, so the lower the score, the better.
Source: Canadian Free Trade Agreement, Consolidated Version, January 1, 2021.

residents or requiring proof of residence to be able to provide or have access to certain goods and services.

For example, the governments of Quebec,²³ British Columbia,²⁴ and New Brunswick²⁵ require, or have the power to require, that softwood lumber logged in the province be processed in the province. Such nakedly protectionist measures undermine the prosperity of the provinces, acting as a drag on natural resource development, but also on processing, by preventing the creation of pan-Canadian processing centres that would enjoy economies of scale and thus be more competitive internationally.

The exceptions that make up the future measures allow the provinces to reserve the right to regulate certain sectors in such a way as to create new barriers to the

23. *Ibid.* pp. 217-218.
 24. *Ibid.* p. 237.
 25. *Ibid.* p. 230.

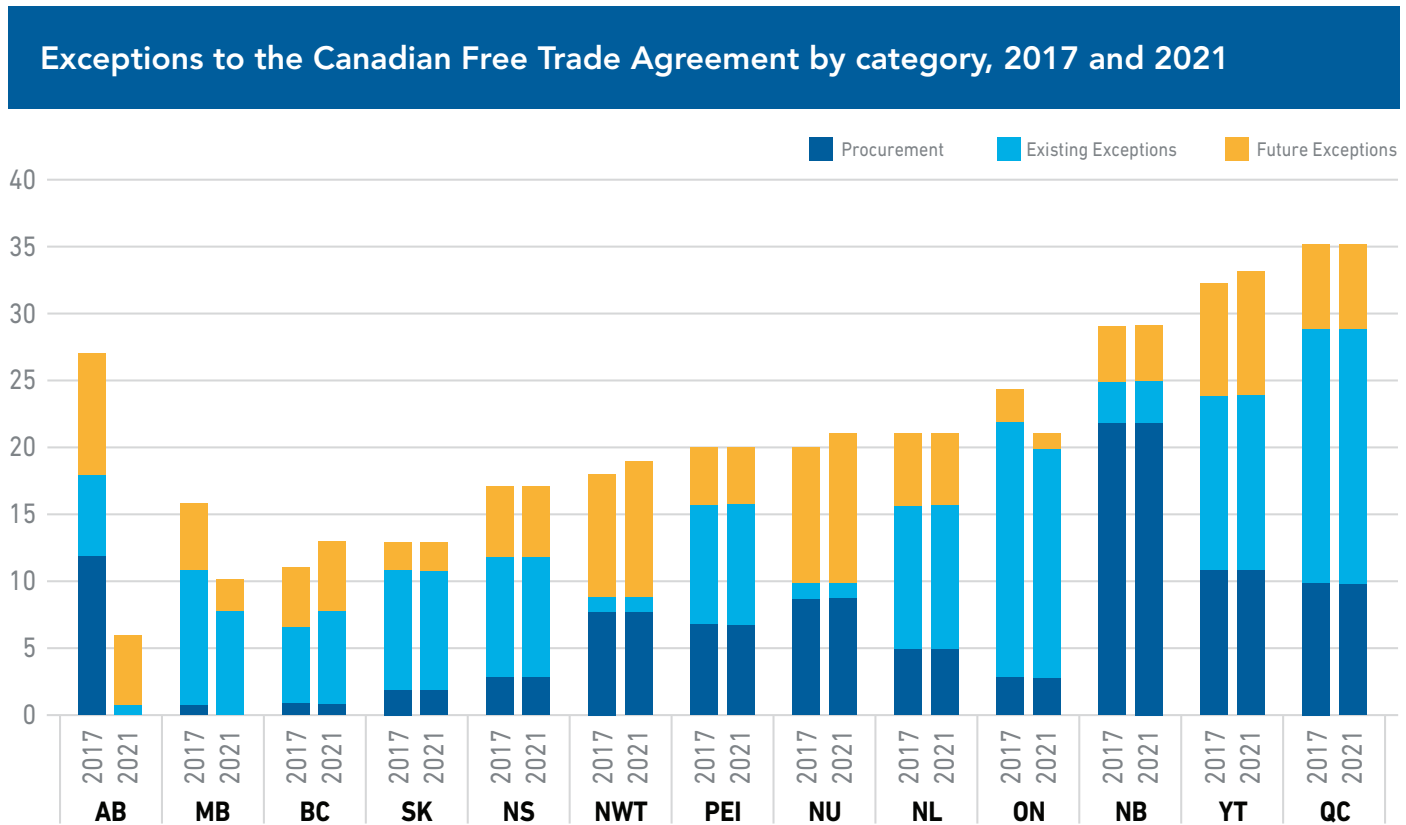
Only three provinces, Alberta, Manitoba, and Ontario, have worked to improve their openness to trade since the signature of the CFTA agreement in 2017.

free internal movement of goods and services. The use of these prerogatives to create new trade barriers would have harmful effects on the economies of every province and territory, and so on the prosperity of Canadians everywhere.

Taking the Next Step

The CFTA was a step in the right direction in that it defined a list of goods and services not included in the agreement—the so-called “negative list” approach—contrary to certain prior free trade agreements that

Figure 2-2



Sources: Canadian Free Trade Agreement, Consolidated Version, April 19, 2017; Canadian Free Trade Agreement, Consolidated Version, January 1, 2021.

included a “positive list” of goods and services subject to the agreement. Yet there remains an enormous amount of progress to be made in order for taxpayers to be able to enjoy a better management of public spending, and for consumers to be able to purchase more affordable goods and services directly.

Some provinces could improve their scores significantly, to the great benefit of their taxpayers, simply by removing their procurement exceptions.

The citizens of Alberta and Manitoba are currently in a position to benefit from the best value for their tax dollars anywhere in Canada, thanks to their elimination of procurement exceptions to the CFTA. In a post-COVID world of soaring deficits, smart spending is going to be critical, and every dollar provincial governments can save by more competitive procurement will matter.

The CFTA should not be the last word on dropping internal trade barriers, but rather the start of a discussion about the relevance of each remaining barrier. Many of the exceptions included in the treaty have no good reason to exist. Some, like the minimum threshold value that must be reached before companies from other provinces can bid on a contract, may have little effect on most Canadians but are quite costly for people living in border regions like Ottawa-Gatineau. Ideally, all of the exceptions contained in the CFTA should include an expiration date, which would allow for the true liberalization of internal trade, thus benefiting Canadians as producers, consumers, and taxpayers.

Table 2-1

2021 Ranking of the provinces and territories on internal free trade, and change since 2017		
2021 Ranking	Province / Territory	Change in ranking since 2017 CFTA
1	Alberta	▲ 9
2	Manitoba	▲ 1
3	British Columbia	▼ 2
	Saskatchewan	▼ 1
5	Nova Scotia	▼ 1
6	Northwest Territories	▼ 1
7	Prince Edward Island	▼ 1
8	Nunavut	▼ 2
	Newfoundland and Labrador	no change
	Ontario	▲ 1
11	New Brunswick	no change
12	Yukon	no change
13	Quebec	no change

Sources: Canadian Free Trade Agreement, Consolidated Version, April 19, 2017; Canadian Free Trade Agreement, Consolidated Version, January 1st, 2021.

CONCLUSION

Despite the good intentions shown by Canadian provinces and territories in signing the 2017 Canadian Free Trade Agreement, only Alberta, Manitoba, and Ontario have actually walked the walk and reduced their exceptions to internal free trade in the interim. One province, British Columbia, and all three territories have actually increased their exceptions, thus working against inter-provincial free trade. This situation is particularly unfortunate for the less prosperous provinces, which would benefit the most from a true single market in Canada from coast to coast to coast.

As we saw in the two cases illustrated, Manitoba and Prince Edward Island would make up significant ground with Ontario in terms of GDP per capita if the barriers to internal trade would disappear. But even the wealthier provinces would see their GDP per capita increase compared to the status quo scenario. In short, the whole country would benefit.

The elimination of the CFTA's remaining exceptions is a unique opportunity to embrace a policy of inclusive economic growth for all of Canada.

In addition to improving the GDP per capita of every province in the country, the elimination of procurement exceptions would lead to cost reductions for taxpayers by increasing competition in the bidding for public contracts. Not only would this make all the provinces richer, but it would reduce their daily operating costs by getting more for every dollar of public money spent.

The CFTA needs to be, not an end in itself, but a step in the process of liberalizing internal trade. This is a process which began with Confederation and the elimination of a variety of customs duties between the provinces, and which should end with the elimination of all internal trade barriers in Canada.

The elimination of the CFTA's remaining exceptions is a unique opportunity to embrace a policy of inclusive economic growth for all of Canada. Given the need to plan for a post-COVID economic recovery in a context of international uncertainty and large deficits, this is an opportunity we cannot afford to ignore.

ABOUT THE AUTHORS



OLIVIER RANCOURT
Economist

Olivier Rancourt holds a master's degree in economics from the Université de Montréal. His master's thesis project examined political bias in the US Department of Justice's filing of antitrust cases. During his university career, he held several positions in the Economics Students' Association at the Université de Montréal (AÉÉSÉUM).



KRYSTLE WITTEVRONGEL
Public Policy Analyst

Krystle holds a BA in Development Studies (International Development), a BSc in Biological Sciences, and a Master of Public Policy from the University of Calgary. She is also currently working on a Master of Science, which she is due to complete in 2021. She has received several academic scholarships for the quality of her work at the graduate level and has published articles in a number of specialized academic journals.



MIGUEL OUELLETTE
Director of Operations and Economist

Miguel holds a master's degree in economics from the University of Toronto. Prior to his graduate studies, he completed an honours bachelor's degree with distinction in economics at the Université de Montréal. During his studies, he was elected President of the Economics Students' Association at the Université de Montréal (AÉÉSÉUM), which has over 600 members, and collaborated with the MEI as an associate researcher.



Montreal Economic Institute

Gare Windsor, Suite 351 – 1100 Avenue des Canadiens-de-Montréal
Montreal (QC) H3B 2S2

T 514.273.0969 F 514.273.2581 iedm.org

ISBN 978-2-925043-09-6