

## Reducing Internal Barriers to Trade and Investment: Replacing the Agreement on Internal Trade

Creating a favourable business environment is critical to enhancing Canadian competitiveness and productivity. Governments in Canada have the ability to positively influence the Canadian business climate by streamlining regulation, eliminating barriers to trade investment and mobility, and removing disincentives to invest. The Canadian Chamber of Commerce is calling for increased leadership amongst the provinces, territories and the federal government in removing internal trade barriers to the movement of goods, services, labour and investment.

The cost of barriers in Canada in 2005 was estimated to be one per cent of Canada's gross domestic product.<sup>1</sup> The Government of Alberta estimates that internal trade barriers cost the Canadian economy as much as \$14 billion per year.<sup>2</sup>

Explicit tariffs between the provinces are strictly prohibited under Section 121 of *The Constitution Act of 1867*; interprovincial barriers are therefore the result of differing rules, regulations, licensing requirements and regional programs which occur when jurisdictions pursuing similar policy objectives use differing approaches. The end result creates differences between jurisdictions that inadvertently create trade barriers and increase the complexity and cost burden to business.

To address these concerns, an *Agreement on Internal Trade* (AIT) was signed by the provinces, territories and federal government in 1994. The objective of this agreement is "to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services and investment in Canada, and to establish an open, efficient and stable market."<sup>3</sup>

By removing existing interprovincial trade barriers and harmonizing interprovincial standards, interprovincial trade is rendered more efficient, more accessible and allows for greater mobility of tradespeople and professionals. The AIT focuses on reducing trade barriers within eleven specific sectors: procurement, investment, labour mobility, consumer protection, agricultural and food products, alcoholic beverages, energy, communications, transportation and environmental protection.

Recently, amendments have been incorporated into the AIT to further improve labour mobility, the trade of agricultural and food goods and procurement practices. The dispute-resolution process was also amended to allow the imposition of monetary penalties on governments for non-compliance with the AIT.

Recent amendments reflect progress in the right direction; however, as the Committee for Internal Trade (CIT) prepares to meet in Prince Edward Island for its 2011 Annual meeting, it will be important to consider a full review and renegotiation of the AIT with a view to establishing a new pan-Canadian agreement to further eliminate barriers to trade, investment and labour mobility.

The Government of Alberta is a strong proponent of reducing interprovincial trade barriers and moving forward with the AIT, but recognizes the challenge to reach consensus among all provinces, territories and the federal government. Consequently in April 2006, British Columbia and Alberta signed the *Trade, Investment, and Labour Mobility Agreement* (TILMA). The agreement eliminates all barriers to trade between the two provinces, creating the second largest economic region in Canada. The agreement commenced in 2007 and was fully implemented in April 2009. It has a stronger dispute resolution process than the AIT, is effectively enforceable for all disputes and has monetary penalties for non-compliance.

---

<sup>1</sup> Conference Board of Canada. *An Impact Assessment of the BC/Alberta Trade, Investment and Labour Mobility Agreement*. 2005. Accessed Online (November 13, 2010): [http://www.gov.bc.ca/ecdev/down/conf\\_board\\_impact\\_assessment\\_2005.pdf](http://www.gov.bc.ca/ecdev/down/conf_board_impact_assessment_2005.pdf).

<sup>2</sup> Government of Alberta. *FAQ's on the Agreement on Internal Trade (AIT)*. 2008. Accessed Online (November 23, 2010): <http://www.international.alberta.ca/658.cfm>.

<sup>3</sup> Government of Canada. *Agreement on Internal Trade: Consolidated Version*. 2007. Accessed Online (November 19, 2010): [http://www.ic.gc.ca/eic/site/ait-aci.nsf/vwapj/AIT\\_agreement\\_2007-05\\_en.pdf/\\$FILE/AIT\\_agreement\\_2007-05\\_en.pdf](http://www.ic.gc.ca/eic/site/ait-aci.nsf/vwapj/AIT_agreement_2007-05_en.pdf/$FILE/AIT_agreement_2007-05_en.pdf).

Based on the success of TILMA, the governments of Alberta, British Columbia and Saskatchewan signed the New West Partnership Trade Agreement, which came into effect on July 1, 2010. This agreement extends trade liberalization in western Canada. While this regional approach is the best alternative in the short-term, a longer-term approach incorporating all provinces, territories and the federal government is needed.

Eliminating interprovincial trade barriers is a vital part of creating an efficient and streamlined business environment in which Canadian firms can flourish. Internal barriers, just like international trade barriers, only decrease trade and economic opportunity between provinces, encourage regional disparities and undermine incomes, productivity and competitiveness. They represent a significant cost to doing business, and need to be eliminated.

The Canadian Chamber of Commerce recognizes that the Canadian-European Union Trade Agreement (CETA), when ratified, will have a significant impact on Canada's Agreement on Internal Trade and interprovincial/territorial trade barriers. However, until the CETA is concluded the Canadian Chamber recommends interim action be taken.

### **Recommendations**

That the federal government work with the provincial and territorial governments to:

1. Consider the New West Partnership Trade Agreement as a model for further trade liberalization in Canada.
2. Work to fully implement the Premiers' Council of the Federation work plan on internal trade.
3. Continue to pursue trade liberalizing agreements with other Canadian jurisdictions through the use of Article 1800 (Trade Enhancement Arrangements) of the AIT, which allows interested parties to move forward when consensus is not possible.
4. Consider a full review and renegotiation of the AIT with a view to establishing a new pan-Canadian agreement to further eliminate barriers to trade, investment and labour mobility. Any new agreement must:
  - Cover all sectors of the economy and include all government entities including ministries, crown corporations and regional and local governments, without exception
  - Institute a dispute resolution mechanism for persons that includes access to a panel with binding and enforceable powers and contains significant fines for non-compliance
  - Ensure that any free trade agreement includes the elimination of non tariff trade barriers to encourage competition and ensure a level playing field for signatories and their respective businesses.