THE GLOBE AND MAIL

Provincial trade barriers? What provincial trade barriers?

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Special to Globe and Mail Update
Published Friday, Jan. 11 2008, 1:15 AM EST
Last updated Monday, Mar. 30 2009, 2:42 PM EDT

Talk about extraordinary: A public policy debate has broken out over an issue that, normally, would not even warrant discussion. For well over a year, an enormous public relations effort has been aimed at convincing Canadians, and their provincial governments, that Canada faces a virtual economic crisis. The crisis? Massive, intractable, destructive trade barriers between the provinces.

Let's be clear from the start here. There are virtually no substantive trade barriers between the provinces and studies done for provincial governments and the federal government before 2005 all testify to that fact. Donald Macdonald's royal commission in 1985, which explored the notion of free trade with the United States, estimated provincial barriers to be about .05 per cent of GDP, and they would be much lower now. UBC economist Brian Copeland did a review of the evidence on inter-provincial trade barriers back in 1998 and found them so low that "efforts to liberalize are likely to have only a small effect on trade flows." In October, 2006, federal officials told a Senate committee that inter-provincial trade barriers might be as high as .38 per cent of GDP. That's it.

But, suddenly, with the signing in 2006 of the Trade, Investment and Labour Mobility Agreement (TILMA) between British Columbia and Alberta, Canadians were being asked to believe that the Canadian economy was "balkanized" or "chopped up." Think tanks, politicians, lobby groups, even academics such as Janice Gross Stein, told them "Canada's future prosperity is at risk."

The source for all this hyperbole was the Conference Board of Canada, the normally staid research institute. It threw caution to the wind with a 2005 study for the BC Liberal government on the economic benefits of TILMA. The board claimed that getting rid of trade barriers with Alberta alone could create 78,000 new jobs and "save" BC $4.8 billion a year - an eye-popping figure, equivalent to what BC earns annually from its softwood exports to the U.S., and representing an enormous 3.8 per cent of its GDP.

Jumping on the bandwagon - but doing no original research of its own - was the Canada West Foundation, which dedicated itself to writing op-eds, doing radio and TV interviews, and even publishing a special issue of its magazine, Dialogue, focusing on the "crisis." (The issue included 10 pro-TILMA articles with two against.) The Fraser Institute dutifully agreed with the assessment, as did business lobby groups such as the BC Business Council and the Canadian Chamber of Commerce.

But the TILMA promoters have a problem. None of these august bodies or individuals can actually name any of the allegedly devastating provincial barriers (except the margarine example from Quebec). The study by the Conference Board did not name a single example. Its methodology has been ridiculed by a number of senior economists. Internationally recognized UBC economist John Helliwell, who has served on dispute panels of TILMA's predecessor agreement, the Agreement on Internal Trade (AIT), claims "There is no empirical support for the Conference Board estimates of GDP and employment changes ..." Patrick Grady, a former senior official in the federal finance department, reviewed the study and similarly declared it "not credible."

The Canadian Centre for Policy Alternatives revealed that in the first phase of the Conference Board's study - a survey of industry - only four of 13 industry associations even bothered to respond. The alleged benefits were exaggerated by including utilities, energy, mining, forestry, and fishing - resource industries that were actually exempted from TILMA.

Todd Hirsch, then Canada West Foundation's chief economist, told me last year he could not name any of the barriers between Alberta and BC. We should not be surprised - there aren't any. Even though the rationale for TILMA was apparently weak enforcement provisions in the Agreement on Internal Trade, none of the cases taken to an AIT panel over 10 years involved a dispute between BC and Alberta. As Mr. Helliwell said in his review, "Trade is essentially already unfettered among provinces, because trade intensities are already almost as high between as within provinces ..."

The Canadian Chamber of Commerce, a vigorous supporter of TILMA, discovered its members couldn't come up with many barriers either. Of its 170,000 business members, the chamber received just 106 responses to its survey. Only 37 companies said they had experienced barriers to trade within Canada and seven said they "worked with ... government to resolve the barrier." Yet the chamber publicly claimed: "What our members told us is that they face a plethora of barriers."

What's going on here?

Well, the dirty little secret of the phantom trade barriers is TILMA's real purpose - a tool for far-reaching, business-initiated, deregulation at the provincial and municipal levels. TILMA's most powerful impact will be as an investment agreement. It allows challenges (with penalties of up to $5 million) to provincial and municipal laws, and regulations, if these law or regulations simply "restrict or impair" an investment - the lowest threshold for launching a challenge of any such agreement. Industry Minister Maxime Bernier explained to the Senate's banking committee TILMA's radical "mutual recognition" provision puts regulators "in competition" for the favour of business. With its unrestricted access to the dispute mechanism and the agreement's guarantee of neutrality of treatment, virtually any government measure is vulnerable to a challenge.

Small wonder, then, that its promoters are trying to sell TILMA simply as an attack on "trade barriers." If there were truth in advertising, this dangerous product would be taken ff the shelf.

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