

## Federal and Provincial Barriers to Internal Trade

### Purpose

The purpose of this paper is to examine selected internal barriers to trade in the context of possible future international trade negotiations. It was felt that for either the bilateral or multilateral trade exercise a background piece on internal barriers at both the federal and provincial levels was required. This paper is not an exhaustive inventory of such barriers, nor does it attempt to pass judgement on their legitimacy. It is simply meant to identify the issue and the implications that trade agreements may have for selected practices, either federal or provincial.

Internal barriers to trade may be approached either by analyzing their effect on economic efficiency, industrial structure, regional development and ultimately, the international competitiveness of Canadian exports, or simply by identifying those barriers likely to be targeted by Canada's trading partners for change or elimination in future trade talks. This paper follows the second approach, but it is recognized that a fundamental review of the topic should consider the costs and benefits of the policies in question.

### Introduction

In recent years the Canadian government has sought to increase output, employment, productivity and incomes by seeking access to larger markets, by encouraging international specialization, and by providing for a more competitive environment in the Canadian market. While current discussions are focused primarily on international trade relations, in the multilateral and bilateral (Canada-United States) context, there is a third level of trade relations which is relevant to the discussion, that of interprovincial trade. The international discussions and negotiations will have a direct impact on restrictions on interprovincial trade.

Internal barriers to trade have been discussed extensively as an issue in the past, particularly in the context of the constitutional debate, although there does not appear to be a clear consensus on the effects of such barriers. In a submission to the Royal Commission on the Economic Union and Development Prospects for Canada, the Canadian Manufacturers' Association argued that growth in interprovincial trade did not match Canada's export performance and had in fact begun to decline in several industries. The CMA maintained that this was due at least in part to interprovincial trade barriers. In early 1983 the CMA conducted a survey on the practices of the provincial governments. One-fifth of the manufacturers responding to the survey indicated that they had encountered difficulties selling their goods because of restrictive procurement practices pursued by provincial governments. For large firms accounting for more than two-thirds of interprovincial