INTERPROVINCIAL TRADE BARRIERS

Report of Task Force II

for

The International Trade Advisory Committee (ITAC)

April 1986

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TASK FORCE II

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EXECUTIVE SUMMARY

Canada is a political federation based on the concept of an economic union. To achieve the benefits which derive from this political-economic structure, there must be no barriers to the free movement of goods, services and factors of production among participating jurisdictions. Government policies have created barriers, both deliberately and unintentionally, thereby causing market distortions and reducing the benefits of specialization and exchange within the union. These policies have also been viewed by Canada's trading partners as either restricting access for their goods and services or providing unfair advantage to Canadian goods and services in their home markets. This has inivited retaliation and limits the gains from international trade. For these reasons the ITAC undertook this study of interprovincial trade barriers.

From an exhaustive inventory of barriers identified, the Task Force focused and classified six types of policies which most distort interprovincial trade and which are likely to be of central concern in the context of U.S.-Canada trade negotiations. These barriers are federal and provincial government procurement policies; provincial practices in areas such as liquor boards, resource development and services; agricultural policies; and regional and industrial incentive programs.

The Task Force suggests that the benefits of removing interprovincial trade barriers would be national in scope and permanently available to Canadians. The freer flow of goods and services among regions would result in a more efficient, rationalized industrial structure that is more capable of competing with international producers both in domestic and export markets. Consumers would benefit from these efficiencies through lower prices and enhanced availability of goods and services. In addition, taxpayers would gain from reduced fiscal demands by governments as well as a less complex tax system. However, since many of these policies were established for regional development purposes, the Task Force acknowledges that there will be regional costs associated with their removal. These costs will involve immediate employment and investment shifts within and between regions. This gives rise to the need for alternative regional development measures aimed at ensuring viable industrial bases in regions affected by barrier removal. In the past, the Canadian economy has adapted to adjustments arising from such events as severe recessions and disruptive government policies without massive underwriting by governments and without undermining the economic union or social fabric of the Canadian federation. Given an appropriate implementation plan, the Task Force believes that regional adjustments to the removal of barriers could be accomplished without undue hardship or government intervention. Consequently, given the negative impacts on the domestic economy and the international irritants arising from them, the Task Force concludes that the permanent benefits of removing these barriers would outweigh the immediate costs associated with their dismantling.

The Task Force considers the implementation process to be the key element in the dismantling of interprovincial trade barriers. This will require a combination of phasing and transitional policies to be developed in a co-ordinated manner by both levels of government in consultation with business and labour. The Task Force emphasizes that the phasing and transitional programs could be applied differentially among regions and industrial sectors. Transition policies should coincide with the phasing period and should be direct, transparent and market oriented. In addition to the implementation process, assurance measures should be developed which will ensure the completion of barrier removal and prevent their reimposition in the future.

More specifically, the Task Force makes the following major and supporting recommendations:

MAJOR

1. That the federal and provincial governments continue the process of inter-governmental consultation aimed at increasing interprovincial trade;

2. That the inter-governmental task force now in place focus on the development of a process by which interprovincial barriers to trade could be reduced and removed through formal federal-provincial agreements;

3. That the process of barrier removal be continued regardless of the outcome of U.S.-Canada trade negotiations;

SUPPORTING

1. That within the context of the existing federal-provincial task force, subcommittees be established to examine specific interprovincial trade barriers with particular reference to the six categories of barriers analyzed in this report;

2. That the subcommittees in their activity attempt to quantify the overall regional costs and the national and regional benefits of barrier removal;

3. That the assessment of costs and benefits take into account the timeframe over which impacts of barrier removal will be evident so that an appropriate

implementation plan can be developed to minimize the adjustments required of government, business and labour;

4. That the implementation process involve phasing of barrier removal and transitional policies that would terminate at the end of the phasing period;

5. That the phasing and transitional policies need not be implemented across-the-board but could be applied differentially to sectors and regions;

6. That transitional policies along with alternative regional development programs be direct, transparent and based on market principles;

7. That transitional policies should not be financed exclusively by the federal government but also be shared by benefiting regions and industry;

8. That formal assurance measures be established that will ensure complete and non-discriminatory barrier removal and prevent possible reimposition in the future;

9. That the Sectoral Advisory Groups on International Trade (SAGITS) undertake quantification of specific industrial costs and benefits both regionally and nationally associated with removal of trade barriers;

10. That the SAGITS quantify the costs of greater U.S. import competition and the benefits of enhanced U.S. market access for specific industrial sectors arising from the removal of interprovincial barriers within the context of reciprocal U.S. action;

11. **That the SAGITS, based on their analyses of industrial costs and benefits of barrier removal, work with the inter-governmental task force to develop appropriate implementation plans;**

12. **That any agreement reached in U.S.-Canada trade negotiations include specific undertakings regarding the phasing and transitional measures involved in the implementation of interprovincial barrier removal;**

13. **That the Canadian trade negotiators obtain reciprocal non tariff barrier concessions from the U.S. in return for removal of interprovincial trade barriers in Canada;**

14. **That the process of barrier removal be initiated by first dismantling those barriers which are overlapping and outmoded as well as those that are merely compensating policies to offset the impact of natural barriers within the country.**

implementation plan can be developed to minimize the adjustments required

4. That the implementation process involve phasing of barrier removal and transitional policies that would terminate at the end of the phasing period;

5. [illegible] cross-the-border [illegible]

6. [illegible]

7. That transitional policies should not be financed exclusively by the federal [illegible]

8. That [illegible] within [illegible] complete and non-discriminatory barrier removal and prevent possible imposition in the future;

9. That the Sectoral Advisory Groups on International Trade (SAGITS) undertake quantification of specific industrial costs and benefits both regionally and nationally associated with removal of trade barriers;

10. That the SAGITS quantify the costs of greater U.S. import competition and the benefits of enhanced U.S. market access for specific industrial sectors arising from the removal of interprovincial barriers within the context of reciprocal U.S. action;

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I INTRODUCTION

Canada is a political federation based on the concept of an economic union. This involves a common external tariff, the absence of barriers to the free movement of goods, services and the factors of production among regions, harmonization of economic policies among political authorities, and the transfer of certain policies to, or co-ordination through, a central authority. Such an economic union will not work effectively if there are government policies, federal or provincial, which restrict the internal flows of goods, services and factors of production. These policies would act as interprovincial trade barriers by discriminating among regions in a way and to a degree that would be against both national and regional interests. Some are deliberate barriers designed to favour one province or region at the expense of others. In addition, there are barriers that may favour a particular province or region but only as an unintended side effect of a policy action aimed at achieving another purpose. These have been classified as incidental barriers to trade. Finally, there are barriers that have been erected to compensate for natural constraints on economic activity arising from geographic, climatic, and cultural elements of the nation. These barriers by constraining trade flows among the regions of the country, cause distortions in the allocation of resources based on market forces and, thereby, reduce the benefits of specialization and interprovincial trade.

From an international perspective, interprovincial trade barriers have also been viewed as interfering with international trade between Canada and its trading partners, by restricting the access of imported goods to provincial markets and providing assistance to Canadian exporters. This, in turn, invites retaliatory actions by other countries that limit the access of Canadian goods and services to foreign markets. In international trade these are classified as non tariff barriers which are defined as legal mechanisms put in place to protect domestic industry. Non tariff barriers can involve quantitative restrictions such as quotas, anti-dumping and countervailing duties, government procurement practices, discriminatory product standards and administrative techniques. One of the most important responses to these barriers is the application of countervailing duties that are imposed by an importing country on products coming from another country which have received a subsidy that distorts international trade. Under the General Agreement on Trade and Tariffs (GATT) the application of countervailing duties has been limited to export subsidy cases that clearly result in trade distortion. The U.S., however, is now attempting to extend the definition of subsidies to include domestic assistance programs which are not generally considered to be trade distorting. In effect, this approach challenges the international acceptability of the many policies that constitute interprovincial trade barriers within Canada.

The Task Force in this report will examine interprovincial trade barriers from both domestic and international perspectives. First, these barriers will be identified, described and the problems associated with them defined. Next, the barriers will be evaluated in terms of their regional and national domestic economic impacts on the economy. This will be followed by an analysis of the costs and benefits that would arise from their removal. On the basis of this analysis, the adjustments required by government, business and labour will be assessed and a program for implementation discussed. Finally, the Task Force draws conclusions regarding barrier removal and makes specific recommendations.

II IDENTIFICATION AND DESCRIPTION

In this section of the report interprovincial trade barriers that are most likely to be of concern within the context of U.S.-Canada trade negotiations will be identified and described. The problems associated with these barriers from both domestic economic and international trade perspectives will be defined for each of the broad categories of barriers identified in this section. The federal and provincial accountability for these barriers along with their purposes and justification will also be discussed.

1. DESCRIPTION

The identification and classification of the barriers to be analyzed is based on the expectation that the U.S. negotiators will focus on federal and provincial government procurement policies; provincial practices in areas such as liquor boards, resource development and services; agricultural policies; and regional and industrial incentive programs that they consider to be countervailable. From Canada's perspective the main concerns are to maintain security of access against countervailing and anti-dumping duties and other safeguard measures such as quotas and surcharges and to obtain an exemption from the "Buy America" federal government procurement policies in the U.S. On this basis, the following six broad categories of interprovincial trade barriers are identified and described.

A. Federal and Provincial Government Procurement Policies

The federal and provincial governments employ a wide variety of government procurement policies that give preferential treatment to local suppliers. Provincial policies involve such items as price preferences, local content requirements, local presence requirements, tendering practices, offset requirements, central purchasing systems, control over sub-contracts, and zone pricing.[1] Generally, these policies are administered through the use of requirements definitions, the maintenance of source lists, and the process of tender evaluation that could provide a margin of preference. These procurement preferences at the provincial level are usually extended to cover provincially-owned or funded electrical, communications, and transportation utilities. At the federal level government purchases are made in the consuming region wherever possible and grant and subsidy programs are often sourced locally to maximize the regional development impact.

Although it is difficult to quantify the precise amount of government purchasing that is subject to procurement policies there is considerable scope for a significant impact on the economy given that there was approximately $4 billion in purchasing undertaken by provincial governments alone in 1984. These policies have a particularly important effect on some sectors where governments are significant purchasers, such as telecommunications equipment, heavy electrical equipment, urban transit equipment, office equipment and supplies, construction material and services, pharmaceutical and hospital supplies, educational supplies, equipment maintenance services and consulting services.

B. Federal and Provincial Regional and Industrial Assistance Programs

This class of barriers focuses on government subsidies and incentive tax measures. Specific programs include: direct grants issued under industrial development programs; transportation subsidies, notably Western grain transportation assistance and Maritime freight rates; loan guarantees, capital grants and income maintenance programs including unemployment insurance for fishermen; the use of Crown development corporations as vehicles for venture undertakings; provincial heritage funds; and special investment tax measures. Generally, these programs are explicit province building measures targeted on a project basis. They are designed to

1 For details of provincial government procurement policies and preferences see Appendix A.

create jobs and investment, move goods to market, rehabilitate rural areas and induce regional self sufficiency in agriculture or manufacturing production. These programs can either be classed as industrial targeting policies where market forces alone do not warrant allocation of resources, or as adjustment measures to compensate for natural barriers (eg. proximity to market) and the phasing out of declining industries.

Direct grants and loan guarantees are the most discretionary forms of industrial assistance. The costs are primarily borne by the federal government, which even under cost-shared agreements with the provinces, absorbs between 50 and 90 percent of the obligation. The investment policies of Crown corporations are also included as industrial assistance. The fact that Crown corporations are exempt from taxes and are treated as off-balance sheet items for budgetary purposes provides an incentive to provincialize development activity through special-purpose Crown corporations. They provide venture capital and/or soft loan guarantees. Likewise, provincial government heritage funds related to the consumption of resources (eg. Alberta, Saskatchewan, Nova Scotia and Quebec) accumulate revenues for reinvestment by government authorities. In a similar fashion, provincial investment incentives and tax schemes while working through the market mechanisms lure out-of-province capital and ensure the retention of in-province funds. Such is the case with Ontario's Small Business Development Corporation and Quebec's Stock Savings Plan. The non-uniformity among provincial tax structures can also produce the same effects and, hence, may be looked upon as a barrier. While most assistance programs are oriented to capital, its cost, mobility and allocation, some measures also focus on cost of materials and labour. Indirectly, subsidization of transportation systems, artificially lowers prices for raw materials and ships goods to market at less than cost. Elements of agricultural and fisheries support programs represent income maintenance and direct cash payments which help keep labour costs low. The sectors most affected by industrial incentive policies are manufacturing, particularly high technology; food processing; iron and steel; footwear; and textiles; maritime fisheries; agriculture and resource extraction.[2]

C. Federal and Provincial Agricultural Policies

In Canada, the federal and provincial governments employ four basic instruments that act as barriers to interprovincial trade in agricultural products - agricultural marketing boards, agricultural subsidy and support programs, restrictive product standards and regulations, and provincial promotional programs favouring local products. The most important barriers are those associated with the federal supply management marketing board system covering the production and marketing of eggs, chickens, turkeys and industrial milk. These national marketing boards establish provincial production and marketing quotas while the related provincial boards fix quotas and prices for individual producers. In addition, there are purely provincial marketing boards for other agricultural products that control where and how producers can market their products. These boards collectively covered approximately 60% of farm cash receipts in 1983-84. [3] In addition, virtually every province provides assistance to farmers in the form of cash subsidies, price and income stabilization programs, and financial assistance programs. These programs are aimed at maintaining and increasing a province's share of the national market in particular agricultural products. In 1981-82 it has been estimated that provincial governments spent a total of $1.4 billion on these types of programs.[4] Finally, many provinces impose restrictive standards and packaging requirements that increase the costs faced by out-of-province producers.

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2 For a broad order of financial magnitude, range and diversity of provincial government assistance programs see Appendix B.

3 For details of the products covered and the number of marketing boards on a province-by-province basis see Appendix C.

4 An example is the provincial hog stabilization program, the details of which are presented in Appendix D.

The purpose of these agricultural policies is to stabilize production of agricultural products and increase producer prices and incomes within particular provinces. In order to accomplish this, border controls have been imposed to prevent interprovincial flows of products, especially those that are controlled by supply management marketing boards. As a result, these policies not only impact on agricultural producers but also on food processors, grocery manufacturers and grocery retailers, all of whom are restricted in their access to agricultural products by the limits on interprovincial movements. Processors, manufacturers and retailers located in one province cannot obtain products from other provinces or from international markets and are forced to operate within the quota and pricing structure of their host province.

D. Provincial Liquor Board Practices

Through their liquor board retailing practices, provincial governments discriminate against producers or suppliers from outside the province. This is accomplished through four means of favouring local products - preferential pricing policies for local products, quotas and taxes on out-of-province products, packaging requirements and marketing support to local products. [5] In addition, Canadian breweries are forced to operate a brewery in each province if their beer is to be sold, or be sold competitively, in that province since out-of-province beer is subject to a prohibitive surtax. This situation arises from the fact that the provinces have exclusive control over the marketing and distribution of all alcoholic beverages within their borders.

Even though the importation and interprovincial trade of these products is subject to a Federal act, these activities can only be undertaken under this act by a provincial liquor board or agency. Production and exportation of alcoholic beverages, on the other hand, are controlled by

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5 For details of the liquor board marketing practices employed in each province see Appendix E.

Federal excise regulations. As a result, Canadian distilleries, wineries and breweries face a complex system of dual regulation that allows for a wide variety of provincial practices that constitute interprovincial barriers to trade in these products and influences the competitive position of imported products relative to that of local products.

E. Federal and Provincial Services Regulations

Trucking

Constitutionally, each province has the authority to regulate trucking within its jurisdiction. The federal government has the right to regulate interprovincial and transborder trucking but delegated this power to the provinces in 1954 by means of the Motor Vehicle Transportation Act. In the National Transportation Act of 1967 provision was made for federal repatriation of this authority but it was never implemented. As a result, interprovincial trucking operators face multiple and differing rules or regulations concerning licensing and collateral requirements such as insurance fees, carrier rates and charges, weight and dimension specifications, safety and inspection and even variations in the definition of commodities transported. This requires a multiple approval process with red tape and delays and can also involve unloading and reshipment through some provinces. All trucking services are subject to provincial sales taxes. An agreement among administrators has now streamlined the application of such taxes but ignored carriers who also operate outside of Canada. This currently affects a number of central Canadian carriers who undertake international transborder operations and who must also travel to other provinces.

Recently, environmental regulations and municipal zoning requirements are creating confusion in the interprovincial trucking of dangerous goods.

Telecommunications

Jurisdiction over telecommunications and informatics is shared with the provinces. At the federal level, the Canadian Radio and Television Commission (CRTC) regulates Bell Canada, BC Telephone, CNCP Telecommunications and Telesat Canada. The provinces, specifically in the Prairies and Maritimes, regulate mainline carriers. Additionally, in the Prairies the mainline carriers are provincial Crown corporations. Under federal jurisdiction, a progressively competitive environment is emerging, particularly with respect to terminal equipment access and interconnection with local networks. Such initiatives have not been followed by some provincial regulators (eg. Saskatchewan and Manitoba). More recent federal initiatives that would require rate rebalancing between local and long distance services face difficulties at some provincial levels as regulators fear a distortion in provincial carriage and income generation. Carrier rates and charges and the basis for costing, differ among the regulatory jurisdictions. Similarly, conditions of licensing for cable TV operators vary by province. Among the provinces and between them and the federal authority there are also technical concerns with respect to standards for equipment.

Internationalization of the telecommunications market is becoming commonplace. Informatic services are not only functioning as traded goods but are embodied in most other goods and services. Modern technology (eg. satellite transmission and reception) permits by-pass of Canadian telecommunication services by many businesses. This is compounded by proximity and ready access to a largely deregulated U.S. telecommunications market.

Financial Institutions

Jurisdiction over financial institutions, particularly insurance and trust operations, is shared with the provinces. A province's regulatory control over financial services rests with the registration and licensing process. Even a federally incorporated financial services firm (other than a bank) must register with each province in which it desires to do business. The process of registration can range from privilege, discretionary application or the meeting of specified pre-conditions. Conditions of operations and collateral requirements can be attached. Some provinces have a sophisticated regulatory and monitoring framework similar to the federal government's while other provinces delegate aspects of regulation and supervision to the federal authority. In light of the trend towards financial market integration, and no doubt influenced by the recent spate of institutional failures, many provinces are focusing on regulating institutional safety and soundness in addition to the distribution system. The net effect has been one of overlapping regulatory authority and supervision. Yet, among the provinces, and relative to federal regulation, significant gaps remain with respect to standards, quality of inspection, enforcement powers and the coverage and operation of consumer protection insurance systems. Additionally, the distribution system for national financial services is fragmented.

Business Practices, Trades and Professional Services

Jurisdiction over licensing and certification of trades, professional services and businesses rests with the provinces. Regulation can be effected directly by a government authority, or indirectly by delegation to trade associations, professional organizations or municipalities. Particularly with respect to trades and professional services, there exists among the provinces both lack of uniformity of standards and lack of reciprocity. Additionally, some provinces maintain a more stringent set of standards for non-Canadians. Requirements pertaining to academic training, apprenticeship periods, residency, citizenship and licensing exams vary greatly. There is also substantial variation as to what class of trades require licensing. Where services are provided in a province on a temporary basis by a non-resident, licensing could be denied, subjected to specific conditions, or premium fees may be extracted. Some provinces also require preferential hiring of residents with respect to the awarding of construction contracts or natural resource development. These barriers affect legal, engineering, accounting, medical, pharmaceutical and trades practices. Consulting operations are hindered, as well as the servicing of machinery and equipment.

F. Provincial Resource Practices

These practices are deliberate province building measures designed to advance provincial development goals and are targeted both to the protection of the natural resource and enhancement of related secondary industry. The policies may involve fiscal actions, such as tax incentives, allowances, and royalties; the imposition of duties; terms and conditions attached to Crown leases; and government regulated marketing and distribution systems. Sectors affected are forestry, mining, oil and gas.

Exploration tax incentives and processing allowances are the most common means employed to stimulate resource development and the downstream smelting and refining of minerals. The definition of allowable exemptions, deductibles and the classification of assets to which the programs apply vary by province. Some provinces also impose duties on out-of-province shipments of unprocessed minerals. Discretionary ministerial authority is also provided in a few cases which directly ties extraction to in-province processing. Such is the case in British Columbia where the government can order up to 50 percent of the output of any mine in the province to be refined at a specific processing plant, smelter or refinery. Restrictions on non-resident activity and obligations related to harvesting and processing are often embodied in government natural resource leases. Governments' role in marketing and distribution can be direct, as in the case of a commission, or indirect, as regulations which require government permission for extraction and consumption. In the case of oil and natural gas both approaches to marketing and distribution are employed, wherein consumption or sale is conditional upon proven surpluses and other technical considerations.

2. PROBLEM DEFINITION

The six broad categories of interprovincial trade barriers clearly impact on interprovincial flows of goods and services within Canada and on the access of foreign suppliers to provincial markets. The problems created by these barriers from both domestic and international trade perspectives will now be defined for each category of barrier.

A. FEDERAL AND PROVINCIAL GOVERNMENT PROCUREMENT POLICIES

The principle problem created by these policies from a domestic point of view is that they fragment government procurement markets for Canadian suppliers. If each province provides preferences for local suppliers and restricts the access of outside suppliers they are maintaining smaller than optimum local industries that are based on an often inadequate provincial market. The rationale for this approach is that these preferences will allow provincial industrial bases to develop and prosper but, if this industrial structure involves inadequate scale, there will be long term viability problems for the industries dependent upon such preferences. From an international trade perspective these preferences act to limit access of foreign suppliers in much the same way as tariffs and could be in violation of an expanded GATT code on government procurement that the U. S. wants to negotiate in the next round of multi-lateral trade talks. Within the context of the U.S.-Canada trade talks, the U.S. negotiators are particularly concerned about provincial procurement policies and are likely to insist that these be included along with federal procurement practices in return for consideration of U.S. federal "Buy America" policies. In effect, these procurement policies are deliberate province building barriers that attempt to benefit one province at the expense of other provinces and Canada's international trading partners.

B. Federal and Provincial Regional and Industrial Assistance Programs

Assistance programs are becoming institutionalized and corporations undertaking development expect such treatment. Provinces willingly compete in the offering of programs to pursue development initiatives. Business decision-making becomes based on after-tax returns and soft guarantees. The location of industry progressively reflects non-economic factors without a clearly enunciated trade-off between political or social considerations and market requirements. Sound business decisions based upon market conditions and structural linkages are waived in favour of public policy criteria, often with little thought as to the contingent impacts on the mobility of resources and the marketing or distribution of the product. Capital, in particular is diverted to where it would not otherwise be invested. Through policies designed to take investment to the people additional infrastructure capital is often required which is not transferable and which, in effect, provides the rationale for perpetual development initiatives in a locale.

The use of assistance programs is a contentious issue in international trade. Provisions of GATT deal explicitly with trade distorting subsidies and focus on the effect of subsidization in conferring a competitive advantage on recipient firms. The issue becomes one of requisite injury to rival firms. The determination of injury is left to the importing country which can either seek remedies under GATT or impose national measures in the form of countervailing duties. With the current wave of protectionism in the U.S., the reach of U.S. countervailing duty law could well be extended to assistance programs which are not generally considered to be trade distorting. Canadian industries that are traditionally dependent upon U.S. markets and which have received government assistance, could well be exposed to possible retaliation.

In terms of multi-lateral trade negotiations, the U.S. has indicated it would like to tighten the GATT subsidies provisions and has pointed to four specific categories of subsidies: domestic industrial targeting, export targeting, agricultural and adjustment assistance. In the context of

GATT, signatories with federal systems of government must accept the international consequences resulting from subsidies undertaken within their boundaries by other governments. Hence, in the framework of the Canadian economic union, the federal government is held responsible for provincial subsidies over which it has no control.

C. Federal and Provincial Agricultural Policies

Federal and provincial agricultural marketing boards, particularly those involving supply management policies, restrict the inter-provincial flows of agricultural commodities and, thereby, result in problems for producers, processors and consumers of these commodities. These barriers have major implications for the cost and availability of the controlled agricultural commodities and related products, especially when there is a lack of accountability for these marketing boards. This situation also has serious implications for Canada's international competitive position in these commodities and products and effectively forces the imposition of import restrictions. From an international point of view, supply management policies are currently exempt under GATT but the U.S. is eager to re-examine agricultural policies in the next multi-lateral trade negotiations. Other agricultural subsidy and support programs, however, are vulnerable to retaliation and could be considered countervailable by the U.S. However, the U.S. also has extensive agricultural subsidy programs which Canada will be concerned about in U.S.-Canada trade talks. In addition, support programs disrupt comparative advantage among the regions of the country with production being located on the basis of these programs rather than on economic or market criteria. These programs have also placed substantial fiscal demands on both the federal and provincial governments. In general, all of these agricultural policies are aimed at self-sufficiency not economic efficiency.

D. Provincial Liquor Board Practices

Many of the provincial liquor board practices that provide preferences for local producers are very similar to provincial government procurement policies in their operation and impact.

Essentially, they discriminate against domestic producers from outside the province and foreign producers in favour of local suppliers of these products. The maze of federal and provincial regulations that confront Canadian producers and importers in this area create many anomalies in the marketing of alcoholic beverages. This is particularly true in the brewing industry where small local breweries find it easier to export to the U.S. than to the next province in Canada. Internationally, Canada agreed in the last round of multi-lateral negotiations that the preferential mark-ups favouring local products would not be increased but, in fact, in a number of provinces this has occurred in violation of the agreement. As a result, the European Economic Community has taken action against Canada under GATT to correct the situation. U.S. wine producers have also protested against these liquor board practices and the U.S. has indicated that they will be raised in U.S.-Canada trade talks. These practices are to some degree deliberate province building barriers that have been imposed for social, fiscal and special interest purposes.

E. Federal and Provincial Services Regulations

Increasing economic integration of the world and the growth of national and multinational enterprises have created a demand for services on a much larger geographic scale than can be provided for within provincial sub-markets. Services have taken on the attributes of a tradeable commodity. Tradeable services may take many forms: embodied in goods (eg. construction blueprints, computer software); provided directly by individuals travelling from one locale to another (eg. trucking, equipment servicing); provided by individuals through communication links (eg. financial dealings, consulting operations); and the establishment of facilities from which services can be offered (eg. financial, retail trade). The foregoing classification is important to understand the dimension of the problem in services regulations - mobility, access, non-discriminatory treatment and consistent standards.

Many regulations are in place to achieve reasonable consumer protection objectives, while others have simply outlived their time and usefulness. Multiple provincial regulations, especially where they are non-uniform, distort the operations of national markets and hence, the flow of services. In application, regulations restrict market entry and exit, detract from mobility and generally lead to non-market pricing through government purview of rate schedules. Multiple licensing and compliance under more than one regulatory system could increase administrative costs to firms and result in a lower net benefit to the customer through delays and variations in service availability, quality and price.

In an international context, some regulations or proceses, could be deemed as discriminating against foreign suppliers. This point is made particularly poignant against the backdrop of U.S. deregulation in trucking, telecommunications and financial services. In trucking, it is now easier to obtain broad general commodity operating authority within the U.S. than in many Canadian provinces. The U.S. presently threatens trade action if U.S. freight shipments continue to be hindered by lack of access to some provincial markets, notably Ontario. In the informatics area, the U.S. would like to liberalize the provision and sale of telecommunication and information processing services as to content (equipment standards and approval procedures) and conduit (network restrictions). In the financial services and investment sectors issues centre on national treatment to foreigners, rights of establishment without unreasonable restrictions or entry barriers and non-discriminatory performance standards. However, non-uniform provincial licensing and regulations could well distort the application of national treatment and rights of establishment. One should expect that at the very least, bilateral negotiations could codify a framework for dealing with international trade in services.

F. Provincial Resource Practices

Creating artifical incentives for resources to be developed and processed distorts the flow of trade. Where policies differ among provinces, there will be a desire to establish operations in the least-taxed jurisdiction and where the most liberal terms and conditions apply. Competitive bidding by the provinces for resource development further skews non-market decision-making. Likewise, policies which stimulate downstream enhancement of primary resources could distort the comparative advantage in processing relative to other regions. Entry restrictions to participation in resource activity are imposed by government lease arrangements and marketing regulations. The latter could also impede interprovincal trade in derivative products.

Canada's resources and related semi-fabricated products are largely sold in U.S. and international markets. Certain resource practices, especially those related to lease obligations and marketing activity, or where discretion is involved, could be construed as providing unfair competitive advantage and considered discriminatory in their application. As a result, they could be potentially countervailable. This is presently the case in the U.S. where efforts are underway to extend the definition of countervailable subsidy to include provincial resource practices such as British Columbia's stumpage fees in the softwood lumber sector and Alberta's dual pricing system for natural gas. Trade negotiations will no doubt attempt to develop a stronger discipline on the use of such practices.

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than in many Canadian provinces. The U.S. presently threatens trade action if U.S. freight

shipments continue to be curtailed by limited access to some provincial markets, notably Ontario.

In the informatics area, the U.S. would like to liberalize the provision and sale of telecommunication and information processing services as to content (equipment standards and approval procedures) and conduit (network restrictions). In the financial services and investment sectors issues centre on national treatment to foreigners, rights of establishment without unreasonable restrictions or entry barriers and non-discriminatory performance standards. However, non-uniform provincial licensing and regulations could well distort the application of national treatment and rights of establishment. One should expect that at the very least, bilateral negotiations could codify a framework for dealing with international trade in services.

F. Provincial Resource Practices

Creating artifical incentives for resources to be developed and processed distorts the flow of trade. Where policies differ among provinces, there will be a desire to establish operations

III EVALUATION

The evaluation of the selected categories of interprovincial trade barries in this section of the report will concentrate on the domestic impact of these barriers and the costs and benefits that could be associated with their removal. This will provide an assessment of their significance for the domestic economy in terms of their impacts on regional development, industrial structure, economic efficiency, industry competitiveness, and consumer welfare. In this evaluation, the analysis will attempt to distinguish between the short-term costs and long-term benefits and between the regional costs and national benefits involved in the removal of these barriers. The analysis in the section will be primarily qualitative in nature and no attempt will be made to quantify these costs and benefits.

1. DOMESTIC IMPACT

The domestic impact of the six categories of interprovincial trade barriers will be analyzed separately for each type of barrier even though some of the impacts may be very similar. This will allow for an assessment of each category independently of other categories.

A. FEDERAL AND PROVINCIAL GOVERNMENT PROCUREMENT POLICIES

The federal and provincial preferences given to local suppliers in government procurement policies has resulted in a fragmented market for Candian suppliers of the goods and services affected by these preferences. As a result, the industrial structure in these areas has also been fragmented with smaller production units being located in various regions of the country instead of larger production facilities that would supply the Canadian market for these goods and services on a national scale. This, in turn, leads to less than optimum scale industries and a lack of production specialization as each of these smaller units produces a wider variety of products to service the local market under the preferential procurement policies. This results in lower productivity and higher production costs for these industries which negatively affect their competitiveness in both international and domestic markets. Overall, there is a loss of efficiency for the Canadian economy. These preferences and inefficiences effectively result in government sanctioned higher prices for goods and services purchased by governments and, hence, higher costs to taxpayers in the provinces or regions of the country where preferential procurement policies are employed.

B. FEDERAL AND PROVINCIAL REGIONAL AND INDUSTRIAL ASSISTANCE PROGRAMS

The industrial incentive system in Canada is an ad hoc approach to grants, tax incentives, loan guarantees and other subsidy arrangements whereby the direct contributions to recipients total billions of dollars annually. The effect is to reduce directly capital costs relative to risks involved and thereby artificially lower total production costs. Investment projects receive support through more than one program; from the taxation side of government, from the expenditure side of government, and from both levels of government. This "stacking" of assistance is such that a private investor in some instances need pay as little as 10 cents for every dollar the project costs. Once put in place by governments, these incentive programs are politically difficult to remove. The requirement to fund such programs combined with the demand for competitive and innovative incentive packages have resulted in a complicated tax structure. A recent study by the Neilsen Task Force on the Management of Government found assistance programs to business to be a major contributor to government deficits both directly and indirectly, by increasing administrative costs of government. Through their contribution to deficits and the necessity to finance them, assistance programs are considered to have a large distortionary effect on capital markets.

The attractiveness of assistance programs leads to inefficient investment selection. Other capital allocation criteria in the business decision making framework are minimized by the abnormal leverage factor made possible by industrial incentive programs. Plant location is obviously affected. This is only heightened where governments directly underwrite infrastructure investment. In the latter case, good money is often thrown after bad as it is politically difficult to walk away from an infrastructure. This also has the effect of reducing inter-regional labour mobility. When coupled with the competitive nature of these programs and industry's reliance on them, the result is a number of small scale plants within any given industrial sector. Perhaps, the best example is high technology manufacturing where virtually every province and their regional governments are involved in the assistance game. A fragmented industrial structure results which is incapable of producing volume that could substantially drive costs downward. Moreover, these assistance programs by skewing the business decision logic overlook the collateral requirements for effective industrial organization. This results in higher materials, labour and transportation costs than would otherwise be the case when sound business judgement prevails. Hence, the industrial incentive system not only results in non-market pricing of capital but frequently establishes a floor under other costs of production and distribution. As a consequence of favouring small scale production and upwardly biasing costs, industrial assistance programs restrict the ability of many Canadian industries to effectively compete in international markets and to defend their domestic market shares in a freer trade world. While these programs create overinvestment in any given region, it does not follow that underinvestment occurs elsewhere within the Canadian federation. This is so because Canada is not a closed capital market and all regions, and provinces can access internationally raised funds.

C. Federal and Provincial Agricultural Policies

Among the federal and provincial agricultural policies the supply management marketing board system has the greatest impact on the domestic economy. The quota systems established under these boards favour inefficient production of agricultural products by limiting the entry of new producers and restricting the flow of products inter-provincially that would reflect production efficiencies among the provinces. This distorts the distrubution systems for these products and results in excessive prices and profits for efficient producers that are already in the system. However, efficient producers are restricted from producing more to replace the production of inefficient producers by the quota system. This, in turn, has resulted in high capitalized values of quotas as efficient producers attempt to expand their production by purchasing additional quotas from other producers. These capitalized quota values are probably the best measures of the inefficiences and excessive prices and profits in the supply managment systems and are major factors in favouring increased vertical integration and concentrated ownership in the farm sector.

The outcome of this system is that consumers must pay higher prices for these commodities directly and through increased input costs for processors and manufacturers. This situation is made even worse by the high capitalized values of quotas which must be recovered by the purchaser of quotas through still higher prices for the commodities. The increased costs to processors and manufacturers is a major element in determining their competitiveness in the market, especially against foreign producers that obtain their raw commodities at open market prices. In effect, consumers and processors face a permanent sellers market for these commodities in which prices are determined by cost of production formulae established by the producers through the respective marketing boards. The rigid quota system also inhibits processor innovation in terms of both new products and new techniques that could increase production and lower costs since they cannot be assured that additional supplies would be available under the quota system. As a result, processors and manufacturers are reluctant to innovate and expand their operations for fear that they would not be able to obtain sufficient supplies of commodities locally and would be prohibited from importing commodities from other provinces or international markets. This is also a major deterent facing these industries in any attempts to expand exports of agricultural products even if they could be cost competitive.

The operations of other provincial marketing boards and the support and stabilization programs of the federal and provincial governments also result in inefficiencies in the agricultural sector. These programs affect the distribution of farm commodities both within a province and inter-provincially with the effect of increasing costs and prices to consumers and processeors. The support and stabilization subsidy programs also favour inefficient production in that they support marginal producers and influence the location of production on the basis of criteria other than economic and market criteria. This means that uneconomic production of commodities will be favoured and perpetuated in regions of the county that do not have a comparative advantage in the production of these commodities compared to other regions. These programs are usually characterized by inter-provinical competition to protect and expand the market shares of their local producers regardless of the economic inefficiences that could be involved. The governments and their taxpayes are also impacted by these programs in that they involve substantial government expenditures that must be paid for in addition to the higher commodity prices arising from the production and distribution inefficiencies.

D. PROVINCIAL LIQUOR BOARD PRACTICES

The major domestic impact of provincial liquor board practices has been the creation of regional brewery and winery industries that are limited in scope to local provincial markets and prevented from establishing larger scale production facilities that would serve their market on a national scale. This is particularly true of the brewing industry which currently has 39 regional breweries to serve a national market that could probably be supplied by a total of 12 breweries in the country. This is in contrast to the U.S. brewing industry whose production facilities are highly concentrated and centralized to supply the U.S. market on a national basis. For example the largest U.S. brewing company supplies 40% of the U.S. domestic market with an annual volume that is three times the total production volume of the Canadian brewing industry. As a result, Canadian breweries cannot achieve efficiencies similar to those of U.S. breweries under this fractured regional indusrial structure. In addition, the Canadian industries have to cope with diverse packaging and distribution systems across Canada which further fracture the Canadian domestic market. All of these factors make it difficult for the Canadian industries to compete against foreign producers both in the domestic and export markets.

From a consumer point of view the liquor board practices limit consumer selection in each province and result in higher mark-ups and prices for products from other provinces and imported products. Prices in each province are determined by the provincial liquor boards and do not reflect market forces in either domestic or international markets. The heavy burden arising from the overlap of federal and provincial regulation and taxation related to alcoholic beverages also increases the costs faced by domestic producers, and hence, consumer prices in Canada. Overall, the consumer faces dictated prices for these products that are based on excessive regulation and uneconomic production facilities that result in higher costs of production and inefficient distribution for these products.

E. FEDERAL AND PROVINCIAL SERVICES REGULATIONS

Differential provincial registration and licensing requirements distort the mobility of skilled and professional labour, hinder the transport of goods and alter the distribution and, therefore, the availability of financial and telecommunication services. Additionally, within the telecom sector, non-uniform technical standards also limit the application of efficient product design and inhibit marketing of manufactured equipment. This results in smaller scale operations than would otherwise be required to serve the national market. Not only are production economies of scale limited but so to are economies of scope (cost savings derived from multi-service operations by a single entity). Most provincial registration or licensing requirements are single purpose oriented. This is particularly evident in the financial sector where non-uniform standards and various conditions applied directly or indirectly to licensing distort the bundling of services, the means of delivery and, hence, create a tilting of the competitive playing field. Cost savings through vertical integration of business is likewise affected by differential and multiple regulations facing operators in a national market. Overall, the costs associated with inefficient industrial organization coupled with the additional administrative costs of compliance impact negatively on consumer prices. Given differing operating standards and the variation in the quality of supervisory systems among the jurisdictions, the consumer is not even adequately protected.

Services regulations, especially at the provincial level are often used as a means of encouraging local operations by providing market opportunities through blocking, delaying or conditioning the licenses of non-residents. Likewise, Canadian ownership control is favoured in the approval process. These facts not only limit extra-provincial competition in a given market but result in less foreign competition in Canada. U.S. irritants in the services identified (trucking, telecommunications, financial, business travel and certification of expertise) are merely outgrowths of distortions evident in interprovincial trade. The fear, however, is the imposition of foreign reciprocal regulations which would limit the opportunities of Canadian firms operating abroad. In the context of globalization of many service industries, the shared jurisdiction for services regulations in the Canadian economic union and the non-uniformity in their application creates difficulties in trade discussion as to the meaning of reciprocity, national treatment, and rights of establishment. Even domestically, federal legislation in the past, when dealing with the role of foreigners has been hamstrung by the limit to which it can establish such concepts.

F. Provincial Resource Practices

The domestic impact of provincial resource practices are similar to industrial assistance programs. They result in non-market allocation of investment capital. The greater effect lies within the downstream sector enhancement, notably processing and refining. Local processing is encouraged even where other locations would be more efficient. Resource practices contribute most to the demand for infrastructure investment and the problems and additional costs associated with it. As such, the relatively higher prices for semi-processed resource products represent higher input costs for the manufacturing or secondary sector of the domestic economy. This is particularly so where there are tariffs and other non-market constraints to foreign materials access. To the extent that a region is successful in developing downstream production of resources, interprovincial flows of commodities and semi-fabricated products could be distorted relative to market dictates. The system of incentives has not only altered natural comparative advantages of regions but has generally led to excessive exploration relative to development.

The application of various government acts designed to protect natural resources, which focus on land and water use when combined with terms and conditions assigned to government lease arrangements often result in lengthy project approval processes. This is only compounded where provincial acts also overlap with federal legislation, particularly with respect to Fisheries, Indian and Northern Affairs and Canadian Oil and Gas Lands Administration (COGLA). A province's right to protect natural resources for use and derivative accrual of benefits by its citizenry frequently results in limiting foreign access to the resource. This has been a source of foreign trade irritation. Like other industrial assistance programs certain resource practices may also be construed as conferring a subsidy on semi-fabricated goods entering foreign markets. Presently, this is the situation with B.C. softwood lumber and in the past mineral resources have also been targeted for countervail. As is the case in all the barriers to interprovincial trade identified in this report, competing provincial resource practices lead to fragmentation of the industrial structure. This is particulary acute in the minerals sector which requires large volumes of production to effect cost savings. Hence, the ability of some sectors and regions to take advantage of expanded export opportunities could be limited by resource policies followed to date.

2. COSTS OF REMOVAL

Since many of these barriers were erected for regional development purposes most of the costs associated with their removal are regional in nature. However, these costs would be manageable if proper implementation of the barrier removal process allowed for adjustments to take place over an appropriate time frame. Additionally, alternative regional development mechanisms must be addressed simultaneously with barrier removal to enhance the economic base of regions affected by the removal. This means that these costs must be determined and assessed in order to design an effective implementation plan for each type of barrier and to develop any necessary adjustment programs in specific cases.

A. Federal and Provincial Government Procurement Policies

The most significant cost arising from the removal of procurement policies would be a negative regional economic and employment impact in those regions and provinces whose suppliers would not be able to compete with larger scale more efficient suppliers in other regions. This would create adjustment problems for local firms and labour markets as production shifted to other regions of the country. In effect, this could result in a concentration of government purchases in central Canada and greater import competition in provincial markets. These production shifts could also result in transfers of capital among regions and potential inter-regional labour flows as production facilities are rationalized in some sectors to meet national market demands. The greatest costs to regions would be lost employment opportunities that would create increased unemployment and labour market adjustment problems while regional economies adjusted to the new competitive procurement environment.

B. Federal and Provincial Regional and Industrial Assistance Programs

Within the Canadian economic union there will always be a requirement for regional assistance programs. This stems from the social-economic objective to promote the development of areas where the standard of living is low, or where there is serious under- or unemployment. Assistance also facilitates the development of common interest projects or those that benefit the economic good of the federation or numerous regions. Finally, at times, assistance is required to remedy serious disturbances in the economy. The removal of assistance programs could have a negative and immediate impact on employment and income generation in regions where the industrial base lacks depth, especially in locales where the labour force is dependent upon a single industry. Likewise affected would be industries and regions where assistance programs constitute compensating polices for the existence of natural constraints such as geography, ethnic concentration, or pockets of chronically low-skilled labour. In such cases, provincial political jurisdictions could feel threatened that their ability to provide policies which promote the well-being of their citizenry is reduced or made less autonomous. Fiscal ability of these provinces could be constrained as tax bases would initially become smaller. To the extent that production inputs are mobile inter-regional labour and capital flows would result. This could further distort the labour skill mix in a given locale. Additionally, non-transferable infrastructure would lie idle in some regions while other regions would experience a co-incident demand for new and different infrastructure. The major lasting issue would appear to focus on ensuring policy autonomy for provincial political jurisdictions wherein development programs would not result in the imposition of new barriers.

C. Federal and Provincial Agricultural Policies

The principal cost associated with the removal of agricultural barriers would be a reduction in farm incomes in those sectors covered by supply management marketing boards as excessive prices and profits created by these boards responded to market forces and returned to more normal levels. Another important side effect to this would be a decline in quota values from the highly inflated values generated under the restrictive supply management system which could result in major equity losses for producers that had purchased quotas at the high values. This impact would give rise to differential regional costs because of the uneven effects of marketing boards on the farm sector across the country with some provinces suffering much more than others because of a heavy concentration of farming activity in the areas affected by the removal of these barriers, for example, milk in Quebec and chickens and eggs in Manitoba. The removal of border controls on the flow of these agricultural products would also result in greater import competition in a number of regional markets as more efficient producers in other provinces and countries penetrated their provincial markets. All of this would add up to a decline in the viability of smaller farming operations and would result in unemployment in the farm sector as farmers are forced to shift into other occupations. The dismantling of subsidy and support programs would have similar regional impacts as production of the products concerned was rationalized nationally in accordance with comparative advantage among the regions of the country.

D. PROVINCIAL LIQUOR BOARD PRACTICES

The costs involved in the removal of provincial liquor board practices would be very similar to those associated with the removal of government procurement policies. There would be a negative regional economic and employment impact as production was rationalized on a national basis and distribution systems were re-structured to service the national market. For example, if the brewing industry rationalized its production facilities in order to be competitive with U.S. producers by replacing the existing 39 regional breweries with 12 large scale centralized breweries there would clearly be regional costs associated with this shift in production. The effect of this on employment has been estimated as a 63 percent net decline in brewery industry employment or a loss of 5,000 jobs across Canada when rationalization was complete with most of these losses occuring in various regions as production shifted to central Canada. The removal of mark-up and tax preferences would also result in lower profits and tax revenues for governments on their liquor board marketing operations in the short-term. Greater import competition, particularly in the brewery and winery industries, would develop as large-scale foreign producers with excess capacity would be able to compete more effectively after the removal of the barriers.

E. Federal and Provincial Services Regulations

Regulation, in the generic sense, is defined as the imposition of rules by the state or its agents backed up by the threat of sanctions with the objective of modifying or controlling private behaviour. At its roots, services regulation has been largely well intended with a view towards consumer protection. In the Canadian federation, protection of consumer interests is a joint jurisdictional concern. The federal government has no over-riding authority. Specifically, each province can assert its concerns for the consumer under the constitutional powers of "property and civil rights" which translates into the licensing and registration of business activity and/or agency control over such activity. Deregulation which properly means reduced economic regulation and improved methods of regulating, oriented towards market principles, challenges both the conviction of government to intervene and the autonomy of provincial authorities. Such accountability and the adequacy of consumer protection is the major cost to be faced in the removal of this class of barriers. To the extent that current regulations also promote regional employment, there would be some negative impacts associated with the elimination of the barriers. In some instances, regulations have the additional effect (unintended or otherwise) of fostering local initiatives. If regulations provide protected markets for resident operators, then their removal would create a shift of resources and some loss of local ownership and control. These costs are considered to be relatively small and clearly transient. Overall, the costs involved in eliminating barriers arising from multiple and differential regulations focus on the jurisdictional autonomy in providing policy direction and supervision including accountability for consumer protection, which would be given up by governments in their harmonization exercises.

F. PROVINCIAL RESOURCE PRACTICES

Costs associated with the removal of barriers arising from provincial resource practices are similar to those involving regional development and industrial assistance programs. Specifically, provinces may be sensitive to an alleged loss of autonomy over their resource base and downstream sector enhancement. Certainly, the National Energy Program (NEP) has created a mood of caution and suspicion when governments meet to deal with resource issues. Provincial government fiscal autonomy and manouverability is likewise threatened, especially as the tax bases could be significantly reduced in regions characterized by resource harvesting, extraction and processing. There will also be negative employment aspects. Significant, however, will be the large losses on abandoned plants and infrastructure facilities. The latter is characterized by a high percentage of public funding, financed long term into the future and is non transferable physical capital which truely constitutes "sunk" costs. In a freer trade world, another dimension of the costs associated with removing barriers due to resource practices is Canadian ownership and control of the resource itself. These are not easily tradeable rights of citizens and the benefits of foreign market access are not readily discernable through the cloud of nationalistic sentiment. Generally, the costs of removing these barriers are immediate, could be significant in some regions and will involve political identity.

3. BENEFITS OF REMOVAL

The benefits of removing interprovincial trade barriers arise primarily from the freer flow of goods and services between the regions of Canada and the potential this provides for the creation of a more efficient rationalized industrial structure in the country that is capable of competing with international producers both in domestic and export markets. Benefits would also be enhanced by a strengthening of regional industrial bases through achieving greater access to U.S. markets in trade negotiations. By their nature these benefits will be national in scope and permanently available to Canadians once they have been achieved. The benefits take time to be realized as industries must rationalize production and re-structure distribution systems to achieve the scale of operations and efficiencies that give rise to these benefits. As a result, a transition period would be required to allow benefits to build-up after the removal of barriers and the implementation of barrier removal should attempt to accelerate this process wherever possible.

A. Federal and Provincial Government Procurement Policies

The greatest benefits arising from the removal of government procurement barriers would be the stimulus this would provide for the development of larger scale more specialized industries that would achieve the efficiencies required to enhance their domestic and international competitiveness. This improved competitive ability would then enable these industries to take advantage of greater access to foreign markets that could be negotiated in international trade negotiations. It would also stimulate the use of technology and result in a more efficient use of capital in the Canadian economy. Although these benefits would generally occur on a national basis there would be a distinct regional benefit in the form of lower prices for government goods and services that had previously been purchased under procurement preferences, with consequent benefits to taxpayers in those regions. In other words, these government procurement policies are costly and inefficient methods of achieving regional development goals that could probably be achieved by other means with considerable savings to taxpayers if governments were able to purchase goods and services from the most efficient producers.

B. Federal and Provincial Regional and Industrial Assistance Programs

The total savings of public dollars directly involved in grants and special contributions to Canadian business is estimated by some to be over $11billion annually. An obvious benefit would be the improved fiscal position of the total government sector in Canada. A favourable collateral impact is the likely provision of simpler fiscal systems. The complexity of the tax system today is largely due to the necessity to raise funds, coupled with the myriad non-discretionary assistance packages. Lower net government financings as a result of an improved fiscal position combined with tax reform would greatly benefit capital markets. This could both enhance the availability of venture capital for new enterpreneurial initiatives and strengthen the financial base of Canadian industry.

Generally, capital would become more efficiently allocated. Industry would not expect subsidies and tax incentives to undertake even the most basic activities, choosing instead to make decisions on market factors involving risk-return trade-offs. Regions will evolve towards producing what they can make most effeciently and at least-cost. This would typically result in longer production runs and lower per unit prices. Labour would share in the gains from higher productivity and consumers would benefit from lower prices which in turn, would likely augment total domestic demand for goods and services. Inter-regional trade could increase and provide for new opportunities in distribution and the services sectors. Small and medim size businesses would benefit as more market niches are observed and the potential economies from serving those niches are greater. Recently, it has been the service sector and small business which have provided new employment opportunities and income growth. This trend would likely continue.

By shifting away from business reliance on government grants and subsidies, potential retaliation by Canada's international trading partners would be mitigated. Presently, affected goods, such as softwood lumber, agricultural products, fish and natural gas would be given more unimpeded access to U.S. markets. Indirectly, by facilitating trade negotiations, a broader spectrum of Canadian goods and services would be given access to foreign markets. A renewed domestic industrial competitiveness would not only provide for increased export opportunities, but also promote vigorous competition with foreign firms within Canadian markets. One should note that Canadian business will be facing a multi-fold increase in market opportunities relative to a marginal enhancement for U.S. counterparts. Therefore, there exists both a greater incentive and more flexibility for Canadian business to apply the most up-to-date technology which in turn, ensures increased cost competitiveness in the future and provides spin-off activity, such as upstream research and development. The benefits accruing to Canadian smaller businesses from access to a larger population of specialized niches and where economies of production become realizable are only augmented by freer trade internationally. Overall, the benefits tend to be permanent and are likely to accumulate progressively through time.

C. Federal and Provincial Agricultural Policies

The major benefit from the removal of suppy management agricultural barriers would be lower prices to consumers and lower input costs for processors and manufacturers of food products. In addition, the rigid quotas and border controls associated with these programs severely limit the ability of processors and manufacturers to rationalize their prodution on a national basis because of the restrictions placed on the inter-provincial movement of raw agricultural products. The combination of artifically high prices and lack of supply result in small scale and uncompetitive production facilities with little opportunity to undertake product and processing innovations. As a result, the removal of these supply management barriers would provide for greater production and distribution efficiencies for both raw and processed agricultural products in combination with an expanded consumer demand for food products as consumer prices fell. The removal of quota restrictions and border controls would also allow efficient agricultural producers to expand production without the necessity of investing heavily in additional quotas at high capitalized values with the consequent effect of lowering the production costs for raw agricultural products. This combination of benefits could place Canadian agricultural producers, processors and manufacturers in an improved competitive position in both the domestic and foreign markets for these commodities.

The removal of provincial subsidy and support programs could also result in a more efficient and rationalized production system for agricultural products. The competitive nature of many of these programs has resulted in an inefficient regional production pattern with all regions attempting to maintain their share of the market even in commodities for which they do not have a comparative advantage. As a result, production costs for these commodities are higher on both a regional and national basis because of these support programs with the result that their removal would cause both consumer prices and processor input costs to fall to more competitive levels. In addition, the taxpayers of those regions would see significant benefits from the removal of these barriers in the form of reduced government expenditures. Finally, the removal of these barriers would reduce the threat of countervailable action by the U.S. and serve to maintain and increase access to the U.S. market for Canadian agricultural products.

D. Provincial Liquor Board Practices

The removal of provincial liquor board barriers would encourage the rationalization and modernization of Canadian producers, especially the brewing industry which has been excessively fractured by these barriers. Canadian breweries must become larger in scale and more technologically advanced in order to compete with U.S. producers that have many times the capacity of the entire Canadian industry. This can only be achieved over time by a centralization of production in a few larger-scale modern production facilities that are combined with efficient national and international distribution systems with common packaging requirements. Although this would initially require the abandonment of regional plants and the raising of substantial new capital, it would result in a more efficient use of capital in the industry when rationalization was complete. Similar benefits could also be realized by the distillery and winery industries, particularly through more efficient national distribution of their products. Consumers in all regions of the country would benefit from lower prices and greater choice if products were allowed to flow across borders without preferences being applied in each province. The removal of these barriers could also result in greater access to foreign markets for Canadian industries which could be exploited by a more efficient rationalized industrial structure in Canada.

E. Federal and Provincial Services Regulations

Eliminating the barriers to interprovincial trade in services which are principally due to multiple and differential sets of regulations would directly reduce the administrative costs to business. This, according to the Nielsen Task Force on the Management of Government is estimated to be quite significant in dollar terms. Removal of the barriers would benefit smaller business to a relatively greater extent as it finds the costs of compliance similar to a regressive form of taxation. The fiscal burden on governments would also be reduced as savings are realized in monitoring, enforcement and supervision.

The majority of benefits would arise from greater efficiency in the production and distribution of services. For example, in trucking, competition would be keener without entry barriers and goods could move from Newfoundland to British Columbia without obtaining approval from all provincial jurisdictions. The most technically specialized form of transport could be utilized. Ultimately, the consumer would benefit both in quality of service and price. In telecommunications, rates would become rebalanced to reflect economic costs of production and transmission and more specialized carriers would emerge which would result in user savings. As telecommunications are progressively embodied in manufactured goods and other services, the contingent favourable impact on the economy is increased. In the provision of financial services, more options will become available directly suited to customer needs and provided conveniently and at least cost by shared distribution systems. This will broaden and deepen the capital markets and redound favourably to the financing of Canadian business. Consumer protection which is critically important in the smooth functioning of the financial sector would be strengthened by the adoption of uniform performance standards and the consistent application of such standards.

The elimination of barriers that affect business practices and professional skills can only enhance the mobility of personal expertise. This is vital to a labour market which is relatively small in numbers and geographically dispersed. In an increasingly competitive world economy, Canadian competitiveness will become even more dependent on the ability to combine high technology with a well educated and mobile workforce. By removing barriers that are deemed by our trading partners to be discriminatory regulations, the threat of foreign regulatory retaliation is reduced and greater access to foreign markets is provided. As Canada could well have a comparative advantage in higher order services, even an international framework agreement focusing on national treatment, rights of establishment, transparency and an orderly means of settling disputes could provide lasting benefits to the services sector. In summary, the removal of barriers associated with services regulation is likely to result in more immediate benefits relative to other barriers to interprovincial trade.

F. PROVINCIAL RESOURCE PRACTICES

Removal of barriers arising from provincial resource practices would produce a similar set of benefits as industrial assistance programs. Capital would be allocated more efficiently. Public expenditures involved in infrastructure investment could be reduced significantly. A simpler tax system would result and government deficits could be substantially smaller and more manageable. Interprovincial trade would increase as comparative advantage dictates what is produced and exchanged. In particular, a more efficient location of processing, refining and milling both inter- and intra-regionally would follow with a likely reduction in the number of plants. However, longer production runs would be evident enabling the capture of scale economies. Under such conditions, use of newer technologies become more economic. Spin-off effects such as those already evident in the B.C. forest industry could lead to collateral industrialization in advantaged regions. These spin-off elements relate to technology research and development, resource machinery and equipment manufacturing, resource engineering and harvesting, transportation and finance. Such industries and services recognized abroad directly constitute trading opportunities.

Consumers of resources or semi-processed products would no longer subsidize producers or holders of government leases. This would result in lower input costs to the manufacturing sector. Both directly as plant size becomes more optimal and indirectly by reducing input costs to other sectors of the economy, Canadian international competitiveness would be enhanced. The elimination of discretionary practices and producer subsidy arrangements would in turn, eliminate the threat of countervail retaliation and aid the process of bilateral and multi-lateral trade negotiations. Other than some immediate mitigation of current U.S. irritants arising from resource practices, the benefits of barrier removal in this case will be slow to accrue but nonetheless permanent.

IV ADJUSTMENT PROCESS AND IMPLEMENTATION

On the basis of our foregoing analyses, it is apparent that there are costs as well as benefits involved in the removal of interprovincial trade barriers. These costs will require adjustments on the part of government, business and labour subsequent to and during the removal period. An adjustment process is needed as the benefits from a reduction in the barriers may not be distributed equally among regions and industries with consequent effects on employment and industrial structure. As a result, assurances will likely be demanded. The Canadian economy is continuously engaged in adjustment and has proven its resilience through such major economic events as the severe 1981-82 recession, the extreme volatility of commodity prices, major depreciation of the Canadian dollar and massive instability in interst rates, disruptive government policies such as the National Energy Program and threats to national unity from Quebec separatism. Within the context of these events, regions, industrial sectors and labour have adapted to these problems without massive underwriting of adjustments by governments, and without undermining the economic union and social fabric of the Canadian federation or disturbing Canada's trading relationships internationally.

The extent and nature of adjustments required will in large part depend upon how and over what period removal of interprovincial barriers is implemented. A critical dimension to the process is the time-frame within which affected parties can adapt to these changes. Costs are likely to be immediate while the benefits will be continuing and permanent. Therefore, a phased approach to implementation, perhaps involving transitional measures, would minimize the costs of removal yet assure the steady accural of benefits. In the U.S.-Canada bilateral trade talks, this implementation process should be considered an important element in any agreements involving the removal of interprovincial barriers. The success of the implementation process will require a consultative framework encompassing both levels of government, industry and labour to ensure a cohesive and consistent analysis of the required adjustments. Such a framework could be used to develop assurances that the process of barrier removal will be carried to completion and to propose enforcement mechanisms to prevent the reintroduction of barriers in the future.

1. ADJUSTMENTS

Adjustments arising from the removal of interprovincial trade barriers are similar for a number of selected barriers analyzed in previous sections of this report. Consequently, the assessment in this section will focus on the adjustments required by governments, business and labour in this process.

A. Governments

The major rationales for the imposition of interprovincial trade barriers by governments have been regional development and sectoral enhancement, protection of special interest groups and consumer protection in the services sector. In the removal process, governments will be concerned about their ongoing ability to pursue these objectives. Hence, adjustments by governments will involve the development of alternative policies on a co-ordinated basis among one another and in such a fashion that new or different barriers do not emerge. In addition, in order to minimize the costs associated with barrier removal for regions, business and labour, governments will want to employ transitional policies or measures during the implementation period.

Perhaps, the most important aspect of governments' adaptation to the removal of interprovincial barriers is the need for alternative regional development policies that are non-distortionary in their impact on the Canadian economy and non-discriminatory in an international context. One of the options available to governments to initiate such policies would be more direct forms of market oriented assistance, for example, loan guarantees for financial intermediaries, tax incentives linked to operating performance and marketable rights, especially for resource development. Reform of the tax system could also provide broader national incentives for investment that would assist in the rationalization of industries. These policies could also focus on the development of viable replacement industries and vertical integration, within the regions, of naturally advantaged industries, which would include related spin-off activities. Governments could increase their international promotional and informational programs for regionally advantaged industries that are export oriented. This type of program could be of particular benefit to small business. In general, governments must reduce the discretionary elements of assistance programs and ensure that market criteria are met.

Government agricultural policies have both regional implications and special interest protection aspects associated with them. The farm sector will continue to be a major concern to governments and current policies will have to be replaced by new approaches which recognize market forces and the need for rationalization of agricultural production. The instability of commodity prices in this sector will continue to create demands for income stabilization plans. These plans must provide for accountability and shared responsibility between governments and primary producers so that markets are not distorted and consumer prices are not determined solely by producer interests. To provide for growing markets in agricultural products, performance oriented incentives could be employed to encourage product and processing innovation as well as the rationalization of the processing industries.

Government interest in consumer protection in the services sector is primarily tied to regulations. Regulatory reform is required to eliminate overlap and duplication between jurisdictions and outmoded regulations. This could be best accomplished in our federal system through harmonization of regulations and the development of common standards. Governments should focus less on discretionary "command and control" practices and more on market-oriented alternatives such as marketable rights, broad performance standards, monetary incentives, information disclosure, corporate governance, and less across-the-board application. One means of accomplishing this would be greater reliance on self-regulation. Governments could also encourage industry-initiated consumer protection plans such as the contingency funds in place for the securities industry and proposed for the insurance sector. In an increasingly global economy, Canadian regulators should co-ordinate procedures with their international counterparts, for example, in establishing standards for trans-border data flows.

B. INDUSTRIES

In order for industries to capture the benefits of barrier removal, they must be in a position to rationalize production and increase both their scale and scope of operations. This would be required to meet increased domestic demand, greater foreign competition and expanded export opportunities. This means closing marginal facilities and raising capital for investment in new and modernized plants. Management must rely on private financial markets for their capital requirements and not seek-out government assistance programs. It is only through the acid test of the market that these adjustments will prove viable through time. There may be particular circumstances in some industries which require transitional assistance. An example of this would be programs (such as selling tax losses) that would assist entrepeneurs in transfering capital from one region or industry to another where there are losses in plant and equipment from barrier removal. Such may be the case for the brewing industry which has been forced into a fragmented structure by provincial liquor board practices and which would have to rationalize quickly to remain competitive in an open national market.

With the removal of barriers such as government procurement policies, liquor board practices, agricultural policies, and transportation regulations, industries would have to re-organize their distribution systems on a national rather than a regional basis. In a more competitive world, both nationally and internationally, firms would have to step-up their marketing and promotional activities in domestic and foreign markets. In addition, management should review compensation packages and training programs to ensure an adequate supply of skilled labour for their rationalized production facilities and their expanded marketing and distribution systems. In this review more emphasis should be placed on performance incentives and internal skill upgrading programs.

C. Labour

The major cost of removing many of these barriers is the reduced employment opportunities in some regions of the country. Although this would be offset nationally by increased employment in benefiting regions, it raises the issue of whether policy should aim at taking jobs to the people or people to the jobs. Traditionally in Canada, regional development policies have attempted primarily to accomplish the former and pressures will continue to be exerted in this direction. Under these circumstances, adjustments by labour will be dependent upon expanded government programs for skill-upgrading and job creation in those regions affected negatively by barrier removal. Skill-upgrading programs will only be effective within a region if that region has a viable industrial base that can provide job opportunities for retrained workers. Where such a base does not exist there is a need to maintain a committment to regional development programs aimed at ensuring a viable base. In the meantime, retraining programs may have to be combined with labour mobility incentives to encourage movement of workers within regions and between regions. These progams need not be totally financed by governments but could be jointly funded by governments, business and the labour movement. The labour movement could make a further contribution to the labour adjustment process by fostering industrial mobility of workers through less restrictive union hiring practices. Business can also contribute by providing job priority, relocation and job search assistance to displaced workers within their own organizations. In the agricultural sector there are particularly difficult mobility problems and skill-upgrading would only be effective for younger farmers. Consequently, governments would have to develop special retirement incentives for older farmers who have no alternate employment opportunties.

2. IMPLEMENTATION

The adjustments required of governments, business and labour will be dependent upon the methods and timing of interprovincial trade barrier removal. Based upon the foregoing analysis, three aspects of implementation will be discussed - phasing of removal, transitional policies and assurance measures to prevent reimposition of barriers.

A. PHASING OF REMOVAL

The purpose of phasing would be to minimize disruptive costs of barrier removal. These costs are likely to be more immediate and regionally concentrated as compared to the longer term accrual of benefits on a national basis. In effect, the phasing process would better match costs and benefits over a defined period of time. This would also allow time for adaptation by governments, industry and labour to the changing competitive environment. In particular, this process would enable orderly adjustments in the capital and labour markets and provide the opportunity for governments to develop alternate policies for regional development, industrial restructuring and consumer protection. In a freer trade world that could result on a reciprocal basis from the removal of barriers, phasing would permit Canadian industries to meet greater foreign competition in the domestic market and to take advantage of export opportunities. This process need not be accomplished by across-the-board or uniform dismantling of the barriers. Based on a quantification of costs and benefits by regions and industry, phasing could be undertaken on a differential time-frame for different regions and industrial sectors. The phasing schedule should be considered as an integral element in U.S.-Canada trade negotiations.

B. TRANSITIONAL POLICIES

Transitional government policies are another method of minimizing immediate costs and encouraging the adjustments required to maximize the longer term benefits associated with barrier removal. By their nature, these policies are tied to the phasing period involved in the removal of specific barriers. In other words, they are policies designed for very specific adjustment purposes over defined periods of time. These policies would cut-in as the barriers are being dismantled and would then phase out coincident with the final removal of the barriers. They would be aimed at facilitating labour market adjustments, assisting in the rationalization of industries and minimizing disruptions to regional economies. As in the government adjustment programs discussed above, the transitional policies should be direct, transparent and market-oriented. These policies should be developed and implemented in a co-ordinated and co-operative manner among all governments. The onus for funding these programs should not rest exclusively with the federal government but be shared with the governments of those regions that accrue greater relative benefits from the removal of the barriers. Transitional policies should also be included as part of any U.S.-Canada trade agreements.

C. Assurance Measures

Assurance measures are needed to ensure that all governments will participate in the removal process, that the dismantling of barriers will continue through time and that no new barriers will be erected either by design or inadvertantly. For these reasons, they are an integral part of the implementation process and must be addressed explicitly by governments. These measures would also facilitate U.S.-Canada trade negotiations by providing assurances to the U.S. that both federal and provincial governments in Canada are committed to the removal of barriers and that no new barriers would be imposed that might disrupt future international trade flows. Assurance measures in the Canadian federal system could involve a number of enforcement mechanisms ranging from constitutional change, intergovernmental agreements and commissions, a code of economic conduct and a business-labour-government commission. The choice among these options should be made on the basis of consultation between the two levels of government, business and labour. In this consultative process, the use of various options in other countries, economic unions and common markets should be studied as to their applicability to the Canadian governmental system and society.

V CONCLUSIONS AND RECOMMENDATIONS

The Task Force concludes that interprovincial trade barriers cause distortions and inefficiencies in the Canadian economy and have contributed to the creation of a fractured and less than optimum industrial structure. This is reflected in higher costs and lower productivity of Canadian industry and, hence, higher prices for consumers. This has served to reduce the competiveness of Canadian industry in both domestic and international markets. Many of these barriers have also resulted in higher government expenditures, larger deficits and a greater burden for Canadian taxpayers. In part, the barriers involving tax incentives have contributed to the complexity of the Canadian tax system. The barriers in the eyes of foreigners have acted as impediments to international trade and have given rise to specific trade disputes with the U.S. Given the negative impacts of these barriers on the domestic economy and the international irritants surrounding them, the Task Force concludes that the permanent benefits of removing these barriers would outweigh the immediate costs associated with their dismantling.

However, despite this conclusion, there will be a continuing concern for regional development in Canada which must be taken into account in the adjustment process and the implementation plan involved in barrier removal. This concern however, could be reduced by the beneficial impact of greater access to U.S. markets achieved through the removal of these barriers in trade negotiations. Accordingly, the Task Force urges the federal and provincial governments to continue their consultations and efforts to dismantle interprovincial trade barriers and that this process should be undertaken primarily for domestic economic reasons with the U.S.-Canada trade negotiations acting as a further catalyst to the process. The Task Force believes that there has never been a more appropriate time to undertake this task given the current co-operative attitude between the two levels of government and the urgency of moving forward on the U.S.-Canada trade talks.

The Task Force believes that the implementation process will be the key element in the dismantling of interprovincial trade barriers. This will require a combination of phasing and transitional policies to be developed in a co-ordinated mannner by both levels of government in consultation with business and labour. An appropriately designed implementation plan will allow more time for markets to adjust and, thereby, reduce the need for government intervention through adjustment policies. The Task Force wishes to emphasize that the phasing and transitional programs could be applied differentially among regions and industrial sectors. Transition policies should coincide with the phasing period and should be direct, transparent and market-oriented. The implementation process should be accompanied by assurance measures that will ensure the completion of barrier removal and prevent their reimposition in the future.

More specifically, the Task Force make the following major and supporting recommendations:

MAJOR

1. **That the federal and provincial governments continue the process of inter-governmental consultation aimed at increasing interprovincial trade;**

2. **That the inter-governmental task force now in place focus on the development of a process by which interprovincial barriers to trade could be reduced and removed through formal federal-provincial agreements;**

3. **That the process of barrier removal be continued regardless of the outcome of U.S.-Canada trade negotiations;**

SUPPORTING

1. That within the context of the existing federal-provincial task force, subcommittees be established to examine specific interprovincial trade barriers with particular reference to the six categories of barriers analyzed in this report;

2. That the subcommittees in their activity attempt to quantify the overall regional costs and the national and regional benefits of barrier removal;

3. That the assessment of costs and benefits take into account the timeframe over which impacts of barrier removal will be evident so that an appropriate implementation plan can be developed to minimize the adjustments required of government, business and labour;

4. That the implementation process involve phasing of barrier removal and transitional policies that would terminate at the end of the phasing period;

5. That the phasing and transitional policies need not be implemented across-the-board but could be applied differentially to sectors and regions;

6. That transitional policies along with alternative regional development programs be direct, transparent and based on market principles;

7. That transitional policies should not be financed exclusively by the federal government but also be shared by benefiting regions and industry;

8. That formal assurance measures be established that will ensure complete and non-discriminatory barrier removal and prevent possible reimposition in the future;

9. That the Sectoral Advisory Groups on International Trade (SAGITS) undertake quantification of specific industrial costs and benefits both regionally and nationally associated with removal of trade barriers;

10. That the SAGITS quantify the costs of greater U.S. import competition and the benefits of enhanced U.S. market access for specific industrial sectors arising from the removal of interprovincial barriers within the context of reciprocal U.S. action;

11. That the SAGITS, based on their analyses of industrial costs and benefits of barrier removal, work with the inter-governmental task force to develop appropriate implementation plans;

12. That any agreement reached in U.S.-Canada trade negotiations include specific undertakings regarding the phasing and transitional measures involved in the implementation of interprovincial barrier removal;

13. That the Canadian trade negotiators obtain reciprocal non tariff barrier concessions from the U.S. in return for removal of interprovincial trade barriers in Canada;

14. That the process of barrier removal be initiated by first dismantling those barriers which are overlapping and outmoded as well as those that are

merely compensating policies to offset the impact of natural barriers within the country.

8. That formal assurance measures be established that will ensure complete and non-discriminatory barrier removal and prevent possible reimposition in the future;

9. That the Sectoral Advisory Groups on International Trade (SAGITS) undertake quantification of specific industrial costs and benefits both regionally and nationally associated with removal of trade barriers;

10. That the SAGITS quantify the costs of greater U.S. import competition and the benefits of enhanced U.S. market access for specific industrial sectors arising from the removal of interprovincial barriers within the context of reciprocal U.S. action;

11. That the SAGITS, based on their analyses of industrial costs and benefits of barrier removal, work with the inter-governmental task force to develop appropriate implementation plans;

12. That any agreement reached in U.S.-Canada trade negotiations include specific undertakings regarding the phasing and transitional measures involved in the implementation of interprovincial barrier removal;

13. That the Canadian trade negotiators obtain reciprocal non tariff barrier concessions from the U.S. in return for removal of interprovincial trade barriers in Canada;

14. That the process of barrier removal be initiated by first dismantling those barriers which are overlapping and outmoded as well as those that are

APPENDIX A

PROVINCIAL GOVERNMENT PROCUREMENT POLICIES

Source: Canada West Foundation, The Canadian Common Market, October 1985.

PROVINCIAL GOVERNMENT PROCUREMENT POLICIES

Province	*Purchasing Agent*	*Source Lists*	*Bidding Procedures*	**Award Premiums**	**Award Procedures**
BRITISH COLUMBIA	B.C. Purchasing Commission	Registration through application and interview. To remain on the list, a firm must respond to every "invitation to quote".	Bidding open to all qualified suppliers on the source list. In exceptional circumstances, public tenders are published in newspapers or trade journals.	For purchases under $200,000 a 10% premium for provincial suppliers and 5% for Canadian suppliers. May be waived if bid offers significant economic value.	Based on price, quality and overall value to B.C.
ALBERTA	Purchasing branch of Alberta Public Works, Supply & Services.	Apply to be registered on the source list. May or may not be interviewed.	Bidding open to all registered suppliers. For crown corporations, suppliers must be known to the buyers.	None	No stated or implied preference policy. If all things equal, Alberta or Canadian suppliers preferred.
SASKATCHEWAN	Purchasing Agency Branch of the Dept. of Supply & Services.	Contact agency of interest. An interview is then conducted.	Invitational bidding.	None	Quality, service and price equal: preference given to Saskatchewan suppliers.
MANITOBA	Purchasing branch, Dept. of Government Services.	Through application and interview.	Invitational bidding for most purchases; however, if time is not a factor, bidding is open to all on the source list.	No set percentage. Various factors are considered (i.e. size of firm, number of employees, tax return to the province). All information is given to the Minister for discretionary decisions.	No stated or implied preference policy; if all things equal, Manitoba preferred. The province has a "Buy Manitoba" policy which allows for some discretionary consideration to local manufacturers.
ONTARIO	Ontario Ministries (according to product classification).	Ministries maintain their own lists. Application and a possible interview is the procedure.	Public tenders unless otherwise specified by a Ministry; in that case, bids are obtained by verbal or written invitations.	None	All suppliers given equal opportunity to compete. Lowest responsible bid is chosen. Preference for industrial development and Canadian content.
QUEBEC	Ministère des Travaux Publics et de l'Approvision–nement.	Only firms with operations in Quebec can be registered on the source list.	Invitational bidding under $50,000 on a rotational basis through the source list.	No set percentage but Quebec and Canadian content a factor in the decision.	Bids evaluated on the basis of product meeting specifications, percentage of Quebec and Canadian content, and price.
NOVA SCOTIA	Nova Scotia Central Purchasing Agency.	Application	90% to 95% of bids are obtained through invitation; the rest are procured by public tendering, depending on the type of purchase. Tenders can be limited if Nova Scotia suppliers are considered reasonably competitive.	No set percentage. Any premiums given are based on Atlantic value–added.	Purchase within Nova Scotia whenever possible. If 3 or more Nova Scotia suppliers exist for the product, no outside bids are solicited.
NEW BRUNSWICK	New Brunswick Central Purchasing Agency.	Application	Over $25,000, tenders are publicly advertised in the New Brunswick paper. Under $25,000, bidding is invitational through a rotational basis.	No set percentage. New Brunswick input (value–added) is considered first, then Atlantic.	Bids are evaluated by cost and impact on the economy. If 3 or more provincial suppliers exist for the product, no bids are solicited from outside the province.
NEWFOUNDLAND	Newfoundland Central Purchasing Agency.	Application	Over $5,000, bids are open to public tender. Under $5,000, bids are conducted invitationally.	Preference rate factor of 10% value–added (provincial content).	Purchase within Newfoundland whenever possible.
PRINCE EDWARD ISLAND	Director of Purchasing, Dept. of Finance and Tourism	Apply to be registered on the source list.	For purchases under $1,500, 3 firms are selected by the Director from a source list to bid. For purchases over $1,500, the bidding is invitational.	No fixed percentage; P.E.I. and Atlantic input are considered, then Canadian content.	

APPENDIX B

PROVINCIAL GOVERNMENT INDUSTRIAL DEVELOPMENT PROGRAMS 1984

Source: Canada West Foundation, The Canadian Common Market, October 1985.

PROVINCIAL GOVERNMENT INDUSTRIAL DEVELOPMENT PROGRAMS, 1984

Administrator/ Name of Program	Objective	Eligibility	Type of Assistance
BRITISH COLUMBIA			
British Columbia Devlopment Corporation (BCDC)	To encourage and promote economic development throughout the province.	Corporations engaged in manufacturing or processing and service industries related thereto.	Financial: low interest loans. Sale or lease of industrial land.
Ministry of Industry and Small Business Development			
— Low Interest Funding Today (LIFT)	To augment existing financial aid programs in an effort to create and preserve jobs in the province.	BC based companies.	Loans at preferred rates of interest and terms.
— The British Columbia Small Business Development Fund	To encourage small/medium sized businesses engaged in manufacturing, processing or high technology to modernize and expand. Working capital depleted by adverse economic conditions may also be replenished.	BC based companies.	Loan can range to a maximum of $1 million (average loans are in the range of $100,000 to $200,000). The interest rate is lower than most conventional lending rates.
— Low Interest Loan Assistance (LILA)	To assist in establishment, expansion or modernization of industrial facilities.	Manufacturing or processing companies, or service industries related thereto, located outside lower mainland and Southern Vancouver Island areas.	Loans up to $250,000 at one–half interest rates of BCDC (amount allocated: $20 million).
— Technical Assistance Program	To assist companies to expand their facilities, diversify their product lines or enter new businesses.	Companies with a demonstrated record of sound and capable management undertaking a formal study of a specified aspect of their operation.	Cost sharing up to 50 per cent (maximum $5000) towards costs of project.
— Assistance to Associations Program	To provide management development and learning opportunities for business, trade and industry.	Businesses and trade and industry associations.	Grants for up to 50 per cent (maximum $2500) towards costs of approved projects.
— Management Assistance Program	To provide assistance towards costs of consulting studies dealing with management or planning aspect of firm's operations.	Business and trade and industry associations.	Grants for up to 50 per cent (maximum $5000) towards cost of study.
British Columbia Research Council	To contribute to industrial development of B.C.	BC based companies.	Technical assistance.
— Product Development Management Program (PDMP)	To assist small/medium sized manufacturing companies who wish to develop a new product by providing an assessment of important factors likely to affect the commercial success of the proposed new product.	BC based companies.	Financial assistance for up to 75 per cent to 90 per cent of eligible project costs.

PROVINCIAL GOVERNMENT INDUSTRIAL DEVELOPMENT PROGRAMS, 1984

Administrator/ Name of Program	Objective	Eligibility	Type of Assistance
ALBERTA			
Alberta Opportunity Company	To provide financial and management assistance to help develop Alberta businesses.	Proprietorships, partnerships and incorporated companies based in Alberta excluding research based industries, primary agricultural producers, public utilities and residential contractors.	Loans and loan guarantees.
Market Development Assistance Program	To provide assistance to Alberta businesses by sharing financial risks of entering new markets for exporting goods and services.	Alberta based enterprises with the capability of entering new export markets.	Financial assistance on a cost share basis.
Product Development Program	To assist Alberta manufacturers increase their in–house design management understanding and capability.	Alberta based and incorporated manufacturing companies.	Financial assistance for up to 75 per cent of eligible project costs.
Nutritive Processing Agreement	To help develop the agriculture industry in Alberta.	Applicants must be located 10 miles outside of Edmonton and Calgary.	Grants for up to 35 per cent of eligible capital costs.
Alberta Heritage Savings Trust Fund	To provide economic and social benefits to Albertans now and in the future.	Loans and investments that provide long term economic and social benefits to Alberta are permissible.	Restrictions apply to each of the five funding divisions. (Alberta Investment; Capital Projects; Canada Investment; Commercial Investment; Energy Investment)
SASKATCHEWAN			
Department of Economic Development and Trade — Aid To Trade Program	To assist manufacturing firms to sell products in export markets, ie. outside Saskatchewan.	Manufacturing companies introducing a new product or exploring a new market.	Cost sharing (normally 50 per cent) to cover costs associated with market research, product promotion, trade missions, trade fairs, incoming buyers and sample shipments.
— Fixed Rate Financing Program	To help small business obtain medium term capital investment loans at fixed interest rates.	Industry, trade, service, tourist and commercial enterprises with gross revenue not more than $1.5 million.	Loans for up to $500,000.
— Venture Capital Program	To stimulate growth of small business.	Venture Capital Corporations (VCC) investing in eligible small businesses.	Tax credits equal to 30 per cent of investment in VCC.
Saskatchewan Economic Development Corporation (SEDCO)	To provide financial assistance to industrial enterprises in Saskatchewan.	Most manufacturing and commercial organizations with the exception of mining, farming, real estate, financial institutions, and charitable organizations.	Loans, loan guarantees, equity acquisitions and leasebacks.
— Assistance for Inventory and Manufacturing Expansion (AIME).	To permit expanded output by manufacturers.	Manufacturers with identifiable markets that have a Saskatchewan value added component of at least 33 per cent of production costs.	Loans and loan guarantees.
— Retail Operating Loan	To help small business remain operational during adverse economic times.	Viable Saskatchewan retailers.	Loans up to $25,000.

PROVINCIAL GOVERNMENT INDUSTRIAL DEVELOPMENT PROGRAMS, 1984

Administrator/ Name of Program	Objective	Eligibility	Type of Assistance
MANITOBA			
Manitoba Development Corporation	To increase economic activity and productivity in Manitoba and encourage the export of goods.	Projects beneficial to the residents of Manitoba.	Loans, loan guarantees and equity investments; technical and management assistance is also available.
Department of Business Development and Tourism — Feasibility Assistance for Small Manufacturers	To encourage companies to hire consultants to conduct feasibility studies relative to the establishment of new facilities or expansion/ modernization of existing facilities.	Manitoba based companies or companies contemplating location in Manitoba.	Cost sharing up to 50 per cent of consultants' fees.
Canada/Manitoba Northern Development Agreement	To improve and broaden economic and human opportunities of Manitoba's northern residents.	Projects must be undertaken in northern economic zones of Manitoba.	Financial assistance.
Small Business Assistance Program (Winnipeg Core Area Initiative)	To encourage the establishment, upgrading and expansion of small businesses in a designated core area within the city of Winnipeg.	Business with 50 or less employees and sales less than $2 million.	Grants on a cost share basis.
Venture Capital Company Program	To encourage private investors to pool their venture capital resources for reinvestment in the equity of small, high growth, relatively risky Manitoba businesses.	Individuals, corporations and cooperatives resident in or controlled by Manitoba residents.	Participation by province on a 35 per cent/65 per cent basis with private investors.
ONTARIO			
Development Corporations — Ontario Development Corporation (ODC)	To provide financial assistance and advisory services to stimulate industrial growth and economic activities in designated areas.	Secondary manufacturing industries, service industries in support of manufacturing and tourism.	Export support: loans for financing foreign receivables.
— Board of Industrial Leadership and Development (BILD)	To improve Ontario's balance of trade through import replacement and increasing export potential. To use new technologies to transform traditional industries and create new ones. To improve opportunities for youth through skills training in the province's educational system. To create jobs. To maximize Ontario's resource potential.	Public and private sector projects in the strategic areas of the economy as follows: — electricity — transportation — people — communities — resources — technology	Financial assistance in the form of grants and loans.

PROVINCIAL GOVERNMENT INDUSTRIAL DEVELOPMENT PROGRAMS, 1984

Administrator/ Name of Program	Objective	Eligibility	Type of Assistance
QUEBEC			
Quebec Industrial Development Corporation			
— Investment assistance program for manufacturing companies	To encourage manufacturing companies incorporating modern technology and dynamic enterprises to invest in Quebec.	Advanced technology: high productivity, export potential, potential for market growth: ancillary economic benefits. Dynamic enterprises: 50 per cent Quebec controlled: at least 3 years of operations; minimum sales volumes of $750,000; profitable.	Acquisition of non–voting shares, non–interest bearing loans, interest rebates.
— Financing program for manufacturing companies	To provide a source of financing to manufacturing firms to establish or expand production facilities.	Financing not available on reasonable terms and conditions from private sector firms.	Loans, loan guarantees, acquisition of shares, convertible loans.
— Investment assistance program for research laboratories	To encourage industrial research activities to promote the economic development and growth of Quebec.	The project should incorporate advanced technology and relate to the development or creation of a product or service for commercial use.	Acquisition of non–voting shares, non–interest bearing loans, interest rebates.
— Assistance program for electronics industry	To encourage the development of the electronics industry in Quebec and to assist in marketing the industry's products.	Pre–defined percentages of sales must be derived from electronics products or software and information packages manufactured in Quebec; maximum number of employees is 500.	Grants, acquisition of non–voting shares, non–interest bearing loans.
— Business Financing Program	To increase employment in the manufacturing, tourism and tertiary sectors of the Quebec economy.	Enterprises situated in Quebec in the manufacturing/processing, tourism and tertiary sectors.	Loan guarantees (up to $10 million) and a subvention measured against increases in the interest rate.
— Small Business Emergency Assistance Program	To assist firms experiencing short term financial difficulties and seeking loan assistance to improve working capital.	In addition to the location of assets and employees in Quebec, the firm must have demonstrated profitability in the past.	Loan guarantees; interest subsidization.
Ministère de l'Industrie, du Commerce et du Tourisme du Quebec			
— Program to assist in the Realization of Industrial Projects	To assist industrial enterprises in the realization of industrial projects.	Feasibility studies related to an industrial expansion in Quebec.	Grants (on a cost sharing basis).
Program for Electricity Rate Discounts	To encourage an increase in productive capacity through the provision of electricity at reduced costs.	Hydro–Quebec customers increasing electricity consumption as a result of a capital investment.	Discounts related to increase in consumption.
NEW BRUNSWICK			
Department of Commerce and Development			
— Financial Assistance to Industry Program	To encourage establishment, modernization and expansion of industry.	Manufacturers and processors.	Loans, loan guarantees or acquisition of shares for capital projects and working capital requirements.

PROVINCIAL GOVERNMENT INDUSTRIAL DEVELOPMENT PROGRAMS, 1984

Administrator/ Name of Program	Objective	Eligibility	Type of Assistance
— Provincial Holdings Ltd.	To encourage the establishment of industry in the province.	Mainly manufacturing and processing operations of economic benefit to the province.	Loans and acquisition of shares.
— Financial Assistance to Small Industry	To encourage establishment, modernization and expansion of small industry in the province.	Manufacturing and processing operations, or related maintenance and repair facilities, with annual sales under $1,500,000.	Grants up to $75,000 for capital projects.
NOVA SCOTIA			
Ocean Industries Development	To promote and market Nova Scotia as an ocean industry development centre.	Owner/operators of ocean manufacturing industries.	Grants to offset capital costs such as land, building, machinery and equipment. Grants to assist manufacturers in attending trade shows, seminars and conferences. Abatement of a portion of municipal taxes for the first four years.
Strait of Canso Area Development	To promote and develop the Strait of Canso area.	Port related companies who are willing to locate in the area.	Grants for construction of an infrastructure for new industries. Grants for feasibility studies including engineering, marketing, etc.
The Nova Scotia Department of Development — Rural Industry Program	To create employment opportunities for rural Nova Scotians.	Individuals, cooperatives, and corporations engaged in manufacturing, processing and selected service industries outside of Halifax/Dartmouth area.	Grants for up to 50 per cent of capital costs (maximum $10,000).
— Small Business Development Corporation	To promote job creation through enhancement of the private sector.	Proprietorship, partnership, cooperative or corporation with less than $2 million annual sales and less than 50 employees.	Loans up to $250,000 for purchase of assets, funding of working capital and purchase of a business.
Industrial Estates Limited — General Development Program	To assist new or expanding industries engaged in secondary manufacturing.	Secondary manufacturers.	Term loans up to $250,000 to finance cost of land, buildings and machinery.
Venture Corporations	To ensure the availability of risk capital throughout the province.	Residents, and in some cases, non-residents of Nova Scotia.	Ten year interest free loans equal to the equity of the principals.
Cape Breton Development Corporation	To generate greater income to the residents of Cape Breton.	All manufacturing and processing companies willing to locate in Cape Breton.	Grants, loans, loan guarantees and other forms of financial assistance are available.
PRINCE EDWARD ISLAND			
Department of Tourism, Industry and Energy — Industrial Assistance Program	To encourage establishment,	Small businesses engaged in	Forgivable loans for up to 50 per cent of capital costs to a

PROVINCIAL GOVERNMENT INDUSTRIAL DEVELOPMENT PROGRAMS, 1984

Administrator/ Name of Program	Objective	Eligibility	Type of Assistance
	expansion and/or modernization of small businesses.	manufacturing or processing operations.	maximum of $30,000.
— Service Sector Assistance Program	To encourage establishment, expansion and/or modernization of businesses.	Firms engaged in selected service sectors.	Forgivable loans for up to 25 per cent of capital costs and $3,000 for each new job created to a maximum of the lesser of $30,000 or 50 per cent of capital costs.
Industrial Enterprises Incorporated	To stimulate industrial expansion and modernization.	Manufacturing and processing plants; firms that export from P.E.I.; warehouse operators; publishers; film and sound production companies; tourist operators; aquaculture and agriculture; research and development; etc.	Term loans with provision for incentives as to principal and interest; incentive grants; loan/equity investments in venture capital companies.
NEWFOUNDLAND			
Newfoundland and Labrador Development Corporation	To provide financial assistance for establishment, expansion and/or modernization of manufacturing and processing industries.	Companies engaged in manufacturing, processing, industrial services, tourism or resource based industries.	Term loans and equity financing.
Department of Rural, Agricultural and Northern Development — Rural Development Authority Incentive Loans Program	To promote expansion of small resource based industries.	Small businesses in primary or secondary industrial sectors or service industries supporting those sectors.	Loans up to $25,000 with preferred interest rates to purchase land, building and machinery.
Department of Development — Ocean Industries Capital Assistance Program	To stimulate further development of Ocean Industries Sector.	Eligible operations include those which manufacture products or equipment used in the Ocean Industries Sector.	Forgivable grants for up to 50 per cent of approved capital costs.
— Market and Product Development Program	To promote programs designed to increase export markets or provide for import substitution.	Companies engaged in manufacturing and processing of natural resources.	Grants up to 50 per cent of marketing costs to a maximum of $50,000.
Department of Finance — Deficiency Guarantee Program	To encourage modernization of fish catching and processing facilities.	Fishing companies unable to arrange suitable financing from private sector.	Loan guarantees for a maximum period of five years at a fee of 1 per cent.

APPENDIX C

DISTRIBUTION AND COVERAGE OF MARKETING BOARDS BY PROVINCE 1983-84

Source: Canada West Foundation, The Canadian Common Market, October 1985.

APPENDIX C

DISTRIBUTION AND COVERAGE OF MARKETING BOARDS BY PROVINCE 1983-84

Source: Canada West Foundation, The Canadian Common Market, October 1985.

DISTRIBUTION AND COVERAGE OF MARKETING BOARDS BY PROVINCE, 1983–84

Prov.	Product	No. of Boards	% of Farm Cash Receipts
B.C.	grains, tree fruits, cranberries, grapes for processing, mushrooms, vegetables, hogs*, sheep and wool*, dairy products, broilers, turkeys and eggs	10	59%
ALTA.	grains, potatoes*, fresh and processing vegetables, cattle*, hogs, sheep and wool*, dairy products, broilers, turkeys, eggs and fowl, hatching eggs	8	50%
SASK.	grains, vegetables, hogs, sheep and wool, dairy products, broilers, turkeys, and eggs	7	72%
MAN.	grains, vegetables, hogs, dairy products, beef, broilers, turkeys, eggs and pullets and honey	8	58%
ONT.	winter wheat, seed corn, soybeans, apples, tender fruit, grapes fresh and for processing, potatoes fresh* and for processing, asparagus, rutabagas, greenhouse vegetables, vegetables for processing, tomato seedling plants, burley and flue–cured tobacco, white and yellow eye beans, hogs, dairy products, broilers, turkeys and eggs	23	57%
QUE.	grains*, apples, blueberries*, potatoes, hogs, vegetables and processing, cigar, pipe and flue–cured tobacco, dairy products, broilers and turkeys, eggs, wood	22	51%
N.B.	apples, potatoes, greenhouse bedding plants, hogs, dairy products, broilers, turkeys, eggs and wood	15	87%
N.S.	winter grains, potatoes, processing peas, flue–cured tobacco, hogs, dairy products, broilers, turkeys, eggs and pullets and wool	10	63%
P.E.I.	potatoes, pedigreed seed*, tobacco, hogs, dairy products, broilers and eggs	7	86%
NFLD.	broilers, eggs and dairy products	3	65%
CANADIAN TOTAL (including CWB)		114	59%

APPENDIX D

GOVERNMENT HOG STABILIZATION PROGRAMS

Source: Canada West Foundation, The Canadian Common Market, October 1985.

GOVERNMENT HOG STABILIZATION PROGRAMS

Province	Provincial Government Contribution (type and/or $)	Total Program ($)	Deficit ($)	Number of Hogs Subsidized	Support Price Per Hog (cwt.)	Comments
BRITISH COLUMBIA			$600,000 at present.		$84.48/cwt	
ALBERTA	$10 million loan guarantee and $10 million start–up grant to close out provincial pork producers' market insurance plan.					No longer has a hog stabilization program.
SASKATCHEWAN	SHARP (Saskatchewan Hog Assured Returns Program) is underwritten by the provincial gov't. Also, the gov't puts up premiums equal to 4% of gross market value.		$13 million plus another $7 million by June 1985.		$80.68/cwt	
MANITOBA	$10 million interest–free loan plus premiums of 2% of market value.		$6 million in April of 1985.	195,000 in first quarter of 1985.	$73.62/cwt in first quarter of 1985.	
ONTARIO						Presently, hogs are not stabilized, but a provincial plan will be established by Autumn 1985 if a national tripartite plan is not in place by then.
QUEBEC	$47.8 million (including premiums) for fiscal 1983/84.	$51 million for fiscal 1983/84.	$41.5 million in fiscal 1983/84.	2.1 million pigs in fiscal 1983/84.	$82.02/cwt	
PRINCE EDWARD ISLAND	50% of subsidization payments are made from the provincial government grant plus interest payments on the loan.		$3 million at present.	43,000 eligible animals in the first quarter of 1985.	$80/cwt; $12.71/head in the first quarter of 1985.	The other 50% of funding comes from an interest–free bank loan to the marketing board.
NOVA SCOTIA	Same as P.E.I.		$5 million accumulated over the past 2 or 3 years.		$81/cwt	Same as P.E.I. except that loans are made to individual producers instead of the marketing board.
NEW BRUNSWICK	Same as P.E.I. and Nova Scotia.	$3.5 million in grants and $3.3 million in producer loans as of March 31, 1985.	Plan is losing about $100,000 per week.		$80/cwt	Same as Nova Scotia.
FEDERAL GOVERNMENT	Federal support price is set at 90% of average returns over the previous 5 years, indexed for changes in production costs.				An estimate for 1985/86 support prices is $72–$75 per cwt.	Only hogs not covered by a provincial plan are eligible.

APPENDIX E

PROVINCIAL LIQUOR MARKETING POLICIES

Source: Canada West Foundation, The Canadian Common Market, October 1985.

PROVINCIAL LIQUOR MARKETING POLICIES

Province	Preferential Pricing Policies	Listing Procedures	Packaging Requirements	Other Marketing Procedures	Quotas
BRITISH COLUMBIA	50% price markup for domestic wines compared to 110% markup for out-of-province wines.	Virtually automatic for local products. Waiting period for imported wines and beers.	Maximum size for imported wines is one (1) litre.	Local wines guaranteed 25% of retail shelf space and better display locations. Advertising pamphlets also distributed instore.	Sales quotas on imported wines.
ALBERTA	All Canadian wines, beers and spirits are marked up the same percentage: 77%, 50%, and 116% respectively. Imported wines, beers, and spirits are marked up 83%, 57%, and 117% respectively.				Quotas on imported rum and scotch.
SASKATCHEWAN	Preferential markup of 5% on local products.			Preferential display allowed for local products.	
MANITOBA	For spirits, the markup is the same across Canada — 133%, compared to 138% for foreign spirits. For wine, the markup for Manitoba products is 65%, for out-of-province products, 75%; for imported wines, 80%.	Automatic listing for Manitoba products but approval required for out-of-province products.			
ONTARIO	Ontario table wines marked up 58% and dessert wines 78%. Other Canadian wines marked up 105%; imported wines — 128%.		Wider range of bottle sizes available to local producers.	Wines produced outside Ontario must be listed with and sold by the Liquor Control Board. Ontario wines may be sold through their own retail outlets.	
QUEBEC	125% markup on imported wine. 96% markup on Quebec liquor items.			Local wines (and SAQ bottled imports) are marketed through grocery stores but out-of-province wines must be sold by the liquor board.	
NEW BRUNSWICK	Table wines: New Brunswick, 91%; Canadian, 117%; imported, 122%. Beer: New Brunswick, 57%; Canadian and imported, 86%. Spirits: New Brunswick and Canadian, 127%; imported, 132%.			Special instore displays for local beer.	
NOVA SCOTIA	Imported spirits: 9–17% markup over Canadian spirits. Imported wine: 10–13% markup over Canadian wine. Nova Scotia beer is $0.04 less per bottle than out-of-province beer; imported beer is marked up 15%.			All spirits and wines produced within Nova Scotia are given eye level shelf positions where possible.	
NEWFOUNDLAND	No specific percentage price differentiation. Products bottled in-province are regularly priced lower than other products produced in Canada and imported liquor items.			Local products are promoted through instore displays and given preferential shelf space.	
PRINCE EDWARD ISLAND	Presently, there are no distilleries on the Island. Wine and spirits are marked up 100% (whether out-of-province or imported) plus a 25% health tax and 10% sales tax. Beer is marked up 40% (whether out-of-province or imported).	Producers are able to list only twice a year, in April and October.			