

Minister of Industry,
Science and Technology and
Minister for International Trade



Ministre de l'Industrie, des
Sciences et de la Technologie et
ministre du Commerce extérieur

Statement

Déclaration

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NOTES FOR A SPEECH BY
THE HONOURABLE MICHAEL H. WILSON,
MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY AND
MINISTER FOR INTERNATIONAL TRADE,
BEFORE THE CANADIAN MANUFACTURERS' ASSOCIATION
SYMPOSIUM ON DOMESTIC TRADE BARRIERS

TORONTO, Ontario
November 29, 1991

I am honoured by your invitation to appear before this important Canadian Manufacturers' Association (CMA) symposium. Your organization has always taken a keen interest in the development of policies that support our prosperity, perhaps because its members are the source of so much of our prosperity.

I'm also grateful for the opportunity to pay tribute to Laurent Thibault who rendered absolutely outstanding service not only to the CMA but also to the country. Larry Thibault has had not only the interest of manufacturers at heart, he's also had our country's interest at heart. In his new role as Co-Chair of the new Canadian Labour Force Development Board, I know Larry will add to an already distinguished record of achievement. I am sure that all of you will want to join with me in thanking him, and would want to add your good wishes for his future success.

Well before it became fashionable, Larry was pointing out the need for us to improve our competitive position if we are to retain our existing markets and develop new ones in the face of globalization and integration.

The manufacturing sector is vital to Canada's competitive standing, and its prosperity, in the 1990s. The challenge for all of us is to make sure the Canadian trademark maintains its reputation worldwide, that Made-in-Canada means second-to-none in products, productivity and quality, and that Canada remains prosperous. Canadians are aware of this challenge. They know that what got them this far won't get them where they need to go.

Last month, we launched the Prosperity Initiative. Our objective is to develop a plan of action for business, labour, government and others to meet the pressing competitive challenges. We must build a new partnership for prosperity. We have to put parochial bickering aside and consider the good of our country. If we don't, the world will pass us by.

Frankly one of our difficulties is that not all Canadians agree on the challenges we face. If you need an illustration, simply look at the reaction to Professor Michael Porter's report on Canadian Competitiveness. Some said it was exactly right in its prescription; others said there was nothing new in it -- implying that Canadians could ignore it for that reason. Still others said that we did not need to move away from resources extraction and processing -- we only needed to do it more efficiently. Even the business community can't agree that we face a number of common competitive challenges.

In the weeks since we launched the Prosperity Initiative, I have had the opportunity to talk to some people who ask why we must consult. "Haven't we had enough talk?" they ask. "Hasn't the time passed when we need to find the facts? Isn't it time we faced the facts?" My reply is that, yes, we do already have a very good idea about what the challenges are. In fact, I am sure all of us in this room, have some good ideas on how we could

improve our training systems, our research and development situation, and so on. But even if most Canadians agreed on the solution, there is no way that the federal government could effectively address the challenges in these areas by acting alone.

The issues tackled, now, as part of the Prosperity Initiative, are questions whose solutions lie beyond the capacity of government -- any government, federal, provincial or municipal -- to devise or implement on its own.

Competitiveness and prosperity must be a truly national project -- one that Canada commits itself to for the long term. It is a project that will require a broad consensus and action, not just on the part of our different levels of government, but also by the private sector, labour, academe, and individual Canadians everywhere.

We are extremely fortunate that David McCamus and Marie-Josée Drouin have agreed to serve as Co-Chairs for the private-sector Steering Group that will lead national consultations and develop the plan of action.

As many of you know, David McCamus is the Chairman of Xerox Canada; he has spent the better part of his career so far in this dynamic, competitive company, including the last decade as President and Chief Executive Officer. As Chairman of the Corporate Higher Education Forum, Mr. McCamus has already shown his commitment to the issues being addressed in the Prosperity Initiative.

Since 1973, economist Marie-Josée Drouin has been associated with the Hudson Institute of Canada, and, for the last several years, she has been its Executive Director. We are very fortunate to be able to draw on Mme. Drouin's extensive public and private-sector experience both in North America and Europe.

Canadians count on your support and that of your members. Canada needs your help. And for those who say, we've had enough consultations, we know what the problem is, I say we must work together to find a solution. What we want to achieve is not just a forum to tell government what is wrong. We need a forum to discuss what all of us -- business, labour, employers, employees, educators and parents, as well as governments -- all Canadians can do to improve our competitiveness.

I was in Japan three weeks ago and I found that one of the reasons for the astonishing success of Japan is that government, business and labour work together to create a national consensus, with results that we know about. Thirty-five years ago, "made in Japan" meant a cheap low-quality product. Today it's top quality and high technology.

One of the issues we must address is the one we are addressing today, trade barriers within the Canadian common market.

A restricted domestic market results in less efficient, inward-looking companies. An integrated Canadian market will encourage our firms to achieve productivity improvements and become more outward looking. As Harvard University's Michael Porter said in presenting his study on Canada's competitiveness: "Local competition is very important. Local rivals force each other to advance, push each other to export."

As it is, the top 50 firms account for fully 20 per cent of our foreign trade, and only about one-third of the 40,000 Canadian firms in manufacturing export any of their products, even though we have secure access, through the Free Trade Agreement (FTA), to the United States, the richest market in the world. By the way, those who say the FTA has been bad for Canada will have to explain to me why our trade surplus with the Americans has gone up by about \$3.3 billion since implementation in 1988, in spite of the recession and our strong dollar.

But for all our external trade, and we are the second most trade-reliant country in the G-7, the fact remains that three-quarters of our trade is within domestic markets. If 28 per cent of our trade is with others, 72 per cent is with ourselves.

Canada's most important market is Canada. Canada's most important customers are Canadians.

But there are hundreds of artificial trade barriers within those markets, costing Canadian customers billions of dollars every year.

The CMA, as you know, estimates that there are some 500 hundred barriers to interprovincial trade in Canada. The CMA has also estimated they cost some \$6.5 billion a year, or 1 per cent of our gross domestic product. That's also \$1,000 a year for a family of four.

The hidden cost is much higher in lost confidence, competence and competitiveness; in lost sales for Canadian firms and lost income for Canadian workers; and in lost opportunities for all. We need to eliminate those barriers for the better functioning of the Canadian common market, for the building of a stronger economic union and for a more competitive and prosperous country.

As the CMA notes in its report on interprovincial trade barriers: "If rationalization does not occur voluntarily, it will be imposed from outside Canada by our trading partners."

An effective economic union with an open, integrated internal market requires at least three elements:

- a clear definition of the scope of the economic union and a commitment among all partners to eliminate all barriers inconsistent with that definition;
- effective collaborative systems for managing the economic union, including managing change, defining the limits of the market and reconciling differences; and
- effective systems to maintain and protect the integrity of the internal market, once established.

In the Speech from the Throne and in our proposals for renewing Canada's Constitution, the government set a national objective for the reduction of domestic trade barriers by 1995. This represents the first element just mentioned, and is contained in our proposals with respect to Section 121 of the Constitution Act.

There are many constructive questions to be asked, for example, about the manner in which we modernize the common market clause, Article 121 of the Constitution, to include free mobility of people, services and capital. Should there be any exceptions to the open market because of the need to recognize regional development? How can labour mobility be assured to give business access to a qualified work force?

These are issues on which the government is seeking the views of Canadians and we look forward to receiving the advice of the CMA, among other interested parties. None of these proposals is cast in stone. All of them are open to improvement. We look forward to working with the provinces and territories as we build a new partnership for prosperity. The important aspect of the changes we are proposing is that if the principle contained in them is accepted, they will represent a significant commitment to establishing an effective economic union. This would establish, for the first time, the first element in the framework of an effective internal market, which I mentioned earlier.

As the Canadian Chamber of Commerce has noted: "Inter-provincial trade barriers act like a tax on local residents and on the national economy, and are a contributing factor to Canada's relatively low-productivity growth. It's estimated that inter-provincial barriers affect as much as 15 to 20 per cent of goods production, so it's not difficult to see how their removal will aid in global competition."

The development of effective collaborative management systems among the partners in Confederation is the second element that is critical to establishment of an effective internal market. Our proposals for changes to Section 91A in the Constitution Act would help Canada to develop such management systems.

Such systems must provide mechanisms for identifying and resolving problems and anticipating the need for change. The proposed changes to section 91A are intended to create collaborative systems in which all governments can agree to changes and reconciliation of policy differences. Creation of an efficient and formal way of implementing changes to the economic union is equally essential to the establishment of an effective internal market.

Under the existing provisions of the Constitution, progress on eliminating internal trade barriers has been incremental, to say the least. We've made some progress in the last four years since an inter-governmental task force set to work on the issue.

In the last few weeks, two significant steps have been taken. The Prime Minister announced that he had signed the Inter-governmental Agreement on Government Procurement. The federal, provincial and territorial governments have agreed that all contracts for goods purchased by government departments valued at over \$25,000 will be open to all bidders, subject to limited exemptions for economic development.

The agreement includes provision for a dispute-settlement process and annual reporting by governments. It is not the end result we want, but it is a good beginning. While it includes purchases of goods, construction and services are not yet included, even though they account for a very significant proportion of overall public-sector procurement. Still we estimate that it covers some \$6 billion of government procurement.

Then last Thursday, I met with my provincial counterparts in Moncton. We have agreed to meet every six months to deal with barriers to internal trade more expeditiously. We will be working hard to include services and construction in the inter-governmental procurement agreement, as soon as possible. Furthermore, I will be pressing my colleagues to extend the agreement to include Crown corporations and the so-called "MUSH" sector -- municipalities, universities, schools and hospital services.

We have also agreed to research the policies and practices which create barriers to internal trade and bring these forward for action starting in May 1992. The first step in eliminating these barriers has to be to expose them to the light of day. If we do so and demonstrate our commitment to eliminate them, Canadians will respond.

In the meantime, Canadians want to know why they can't buy beer made in New Brunswick here in Toronto, when it is among the best-selling imports in all 50 American states. They think it is unacceptable that they can't use bricks made in one province on construction sites in another. They think it is inefficient that

wire and cable companies selling to provincial utilities and phone companies must establish local residency in order to win contracts. They know the country is over-regulated when trucks transporting goods across Canada have to obtain 10 different approvals, as well as complying with regulations in each province.

Let me give you just one specific example here in Toronto. When they were building the SkyDome, the contractors selected a Saskatchewan company to install two 1,000 horsepower boilers. But because of government preference for Ontario products, they had to install four 500 horsepower boilers, at a significantly higher cost.

And while we are phasing out most trade barriers with the U.S. under the FTA, we retain internal trade barriers that cost us billions every year, and hurt our competitive position. And some of them, in beer and wine, for example, are unacceptable under the General Agreement on Tariffs and Trade. Because of such international trade obligations, foreigners are gaining preferential access to Canadian markets. Surely it is time Canadians enjoyed at least national treatment in Canada!

Progress on these issues has been slow -- far too slow -- and there is more work to be done by all of us: government, business and labour. Once we have taken the first two steps necessary to create an effective economic union, Canada will need a mechanism to maintain the integrity of the market -- the third element essential to ensuring an economic union. The private sector is an essential part of this process; you know and can complain about the establishment of new barriers.

You may also have good suggestions about institutional changes which will help to maintain the integrity of the internal market. Governments could establish a tribunal to deal with such compliant and correct policies that create new barriers. To do so will require the utmost of inter-governmental co-operation that you here to-day have an interest in encouraging and supporting.

If we are to prevent backsliding from our initial resolve to eliminate the barriers, we will require a combination of political will and continuing commitment on the part of the private sector. Maintaining the integrity of the market is essential to maintaining the competitive advantage we gain thereby.

There has been some controversy about our proposal to strengthen the economic union. Some have suggested that it is too sweeping, that we could use it to take over key provincial assets in both the public and private sector -- indeed some have

characterized it as a federal power-grab. It is nothing of the kind.

When you examine the proposal, it is clear that while the Canadian Parliament would have the authority to make laws for the betterment of the economic union, if such laws were to come into force, they would require approval by seven provinces representing 50 per cent of the population under the general 7/50 constitutional amending formula. Even then, dissenting provinces could opt out.

Some have suggested this is a federal grab for more power. It isn't. But if this collaborative mechanism is unacceptable to some, then they owe it to Canadians to propose a real and effective alternative, which will assure an effective economic union. The Europeans have such a mechanism; so should Canada. We want to improve the package, and we welcome all constructive suggestions, from the provinces and territories, from concerned interest groups and from individual Canadians. We look forward to incorporating such suggestions in the formal package which will be presented in early 1992.

Quite a bit is said, and it needs to be, about the consequences of our breaking apart. You all saw the Economic Council's estimate that Quebec sovereignty with a form of economic union would cost the average Quebec family \$1,800 a year, which works out to a provincial tax increase of \$5 billion. The Council couldn't put a price on the cost of outright separation without an economic union.

But I would rather look at what we stand to gain by remaining together, rather than what we have to lose by drifting apart. Just consider what we've achieved together.

In a century and a quarter since Confederation, a rural society of 4 million inhabitants has grown to a world industrial and trading power of 27 million.

We have built the seventh-largest industrial economy in the world, though we are only thirty-first in population.

We have the second-highest standard of living in the world and the third-highest rate of productivity, as measured by output per worker.

Since 1961, we've achieved the second-highest rate of growth among the G-7 countries, and the seventh-fastest in the Organization for Economic Co-operation and Development (OECD).

We have had the second-highest rate of investment growth in the G-7 in the last 30 years and have achieved the highest rate of job creation in the OECD over that 30-year period with average

growth of 2.5 per cent, twice the OECD average. And the United Nations Human Development Index ranks Canada the second-best country in the world. Some 10 million people will make inquiries about coming here in this decade. And we have accomplished this by taking full advantage of our considerable natural bounty, political stability and high level of education.

But our past success is no guarantee of future prosperity. In an uncertain world, stability is not assured. As Professor Porter suggests, we can no longer rely so heavily on our natural resources while the rest of the world relies on the knowledge industries for success.

In Europe, after 1992, goods and services and capital will move more freely among the 12 countries of the Community than they do among the 12 provinces and territories of this one country.

The European Commission has estimated that the creation of the internal market planned for Europe in 1992 will raise average European incomes by at least 6.5 per cent. The European monetary union is expected to raise incomes by a further 5 to 10 per cent. If Canada were only now building an economic and monetary union, these estimates suggest that such an union would generate an increase in living standards of between 11.5 and 16.5 per cent for the average Canadian, or between \$11,000 and \$16,000 for a family of four. Surely this is a powerful argument for improving, not destroying, our successful union.

In the British North America Act, the Fathers of Confederation provided that "all articles of the growth, produce and manufacture of any one province, shall, from and after the union, be admitted free into all provinces."

And yet we have the hundreds of barriers to the free movement of goods within our own country. The short-term costs can be measured in cash. The long-term costs can be measured in competitiveness. The Chamber of Commerce has observed: "Interprovincial trade barriers can make companies -- particularly those that do not export at all -- dependent on government for artificial support and poorly equipped to fend off international penetration of our own domestic markets. They also prevent the development of strategic alliances with companies in other regions of Canada, something that is surely a logical first step to the global environment."

As one Royal Commission concluded: "There should be complete freedom of trade and commerce throughout Canada, complete freedom of investment, complete freedom of movement."

That was the recommendation of the Rowell-Sirois Commission in 1940.

Half a century later, we are still working to achieve the four freedoms -- the unrestricted flow of persons, goods, services and capital -- within our own common market. The program I have outlined will, I hope, set in place the framework for creating an effective economic union in Canada. I am convinced that we can achieve such a market by the application of a certain amount of political will combined with pressure from you here today.

Well what can you do about this competitive challenge? We cannot eliminate these barriers until we know what they are. One of the key problems we face in identifying barriers is that few of them ever see the light of day. I want you to shed some light on them, so we can see them for what they have become -- costly barriers to doing business. I am not saying that all barriers are wrong, but we need to know about those which no longer make any sense, so we can eliminate them.

So, I am asking each of you to take a hard and detailed look at the way you do business, and the barriers you face in your business. Prioritize those which are most difficult. I need to know which barriers should be addressed first, and I need to know it by the Spring.

Officials will be consulting business associations, and doing other research to identify barriers, so share your findings with them either directly or during your sectoral consultations which are coming up as part of the Prosperity Initiative.

I know that there are some, in Canada, -- even some here today -- who are uncertain about a future without what they have come to regard as protective barriers. To them I say that the removal of barriers to internal trade will give us access to our best and most important market -- Canada. I am certain that in doing so we will create more competitive businesses, better able to take their place in the evermore competitive global marketplace.

If we can build a more integrated and effective economic union, we will all benefit from the strength our businesses build up at home, because their competitive ability will also generate the wealth Canada needs to have the means to be a caring society.

Canada is one of the world's great success stories.

We would do well to stay together, and stand together, as one country rather than two. There is strength in our numbers, 27 million, standing together on the northern half of this continent. Strength in pressing for a successful Uruguay Round. Strength in dealing with our American trading partners. Strength in negotiating a North American Free Trade Agreement with the U.S. and Mexico. Strength in dealing with the New Europe and the Pacific Rim countries.

That is the essence of the government's proposals to strengthen the economic union. That is also the essence of the prosperity agenda. We need one strong Canada so we can be competitive in the new world economy. Make no mistake, we are entering a critical period in the history of Canada.

The decisions we take in the next year will shape our country in the next century. We need to make the right decisions, for a united and prosperous Canada.

Thank you very much.