Internal Trade Barriers

A SPECIAL CHALLENGE FOR THE CANADIAN ECONOMY

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In a world where national economies are more and more determined by the global economy, where national states are less and less independent in their capacity to direct their internal economies, and where transnational companies' trade and investment flows have linked national economies in increasingly complex networks, it is difficult to conceive that Canada had internal trade barriers up until July 1995.

Just as the twenty-first century is about to begin, and several years after reaching free trade agreements with other nations, first with the United States and then with Mexico, Canada has decided to free up trade within its own borders. This is obviously one more peculiarity of the many that characterize Canada. One can only be surprised that a country that belongs to the group of seven most industrialized nations of the world has agreed so recently to eliminate its internal barriers to the trade of goods and services and to the free movement of investment and labor across its provincial borders.

The negotiating process for the elimination of internal barriers began in 1987, when the prime minister of Canada established the Committee of Ministers on Internal Trade (CMIT). By 1991 two accords had been negotiated: the Intergovernmental Agreement on Goods Procurement and another on the sale of beer. Talks only concluded in June 1994, with the Internal Trade Agreement (ITA) which was ratified and went into effect in July 1995.

Article 102 of the agreement gives us an idea of its content:

a) Parties will not establish new barriers to internal trade and will facilitate the cross-boundary movement of persons, goods, services and investments within Canada;
b) Parties treat persons, goods, services and investments equally, irrespective of where they originate in Canada;
c) Parties reconcile relevant standards and regulations to provide for the free movement of persons, goods, services and investments within Canada; and
d) Parties ensure that their administrative policies operate to provide for the free movement of people, goods, services and investments within Canada.[1]

A very clear example of how internal trade barriers worked in Canada is that of the famous Moosehead brewery. This company began in Nova Scotia as a small family business that has continued for six generations, and today is the most important Canadian brewery that has not been bought out by foreigners.[2] Moosehead tried to expand to cover the national market but it met with

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[1] Agreement on Internal Trade, Ottawa, 18 July 1994.
[2] Derek Onland, "Moosehead Beer: Blocked in Canada, Hits Big Time Worldwide" in *Canadian Speeches* 10, no. 1 (April 1996).

major obstacles: "We realized that the internal trade barriers demanded we set up a factory in each province... and we simply didn't have the capital to enter the markets of the western provinces."[3]

The firm decided to focus on the enormous southern market and entered the 50 states of the U.S. with great success and later ventured into various areas of the rest of the world, like Australia, Europe and Japan.

It was not until 1992, when internal trade barriers on beer were eliminated, that Moosehead began to sell in Ontario and British Columbia, and later in Alberta, Newfoundland and Manitoba, with a curious slogan: "Now imported from Canada." Currently, the firm that first conquered international markets has also won a strong share of the national market.

There were various ways in which internal trade barriers affected the economies of the provinces. Some examples are:

1. The laws of some provinces prohibited the purchase of energy from others even when this would be cheaper.
2. From one province to another, trucking companies had to observe different safety regulations for heavy vehicles on highways.
3. An architect with license to work in one province had to apply for permission to work in another.
4. Soft drink companies had to comply with different bottling laws. There were also different regulations for food products, for example, in coloring additives to margarine, in the production and distribution of milk and in the volume requirements for packaging fruit and vegetables.
5. Government purchases were also restricted geographically: some provinces ruled that municipal councils use only materials that originated locally.

There is no doubt that Canada's participation in globalization processes and in the North American bloc demanded the disappearance of barriers to internal trade. The economic liberalization carried out both inside Canada and abroad (NAFTA) follow a global logic, present in the entire world economy, directed to achieve greater efficiency and competitiveness. If a closed national economy is not functional in this day and age, the trade barriers among Canadian provinces were even less so. Thus, it is easy to infer that the process of universalization[4] of the world economy has intervened in the development of the Canadian economy and has accelerated national processes of political and economic change, heightening the already pertinent debate on the structure of the federation and the relationship of the federal government with the provinces and territories.

Due to its content, the ITA forms part of the same project as NAFTA. In fact, ITA contemplates the reforms necessary to set both agreements in action. For example, in Article 1809, the ITA states that "mechanisms exist to establish connections with NAFTA and the World Trade Organization (WTO)."

How can we explain that foreign trade was liberalized before barriers to internal trade were eliminated in Canada? The first general agreement on trade liberalization, the Canadian-United States Free Trade Agreement, was signed in 1989; Mexico joined in some years later (NAFTA went into effect in January 1994), while the Internal Trade Agreement was signed in 1994 and was ratified and went into effect in 1995.

The reason has to do with the complex relations between the federal government and provincial governments in Canada. The Canadian federation is highly decentralized, and the Constitution gives the states wide decision-making powers on issues as important as the laws governing production, transportation, and state government procurement policies.[5] It also gives the provinces ownership of natural resources located within their boundaries. This autonomy has given rise to a situation where each province legislates as it sees fit, seeking to establish protectionist policies that support job creation and local production, which has clearly caused difficulties for the functioning of a really integrated national market. These provincial economic and political structures are a result, to a great degree, of Canada's constitution-

[3] Derek Onland, op. cit., 27.

[4] The term "universalization" refers to a long range process of economic integration that includes the entire history of capitalism and that has adopted various forms, the last of which is globalization. This phase is marked by the use of new technologies through which the financial, trade and productive markets have become integrated in a way never achieved before.

[5] Jeffrey Thomas, "The NAFTA and Canada's Internal Trade Agreement: You Can't Have One Without the Other." Lecture presented in Mexico, organized by the UNAM's Institute for Legal Research and the Council for North American Business Studies of Simon Fraser University, April 19, 1996.

al accords, and have created interests that go back many years, and explain why the federal government cannot easily decree a change in the rules of competition.

But a third factor, the external market, unified the interests of the important industrial, commercial and financial sectors and agreements were reached, on a federal and provincial level, to open the southern border. This opening presupposed the free movement of goods and services within Canada. What's more, the external sector had already lobbied against internal protectionism on previous occasions. Thus, through the GATT (now the WTO), some foreign companies had registered complaints against protectionist measures in certain Canadian provinces and some barriers had been eliminated for foreign firms.

It is early yet to judge the results of the Internal Trade Agreement; while successful cases have existed like that of Moosehead beer, major obstacles have also arisen in putting the accord into effect, because, according to Canadian experts on the topic, restrictions on internal sales of certain types of goods still exist, as well as on public sector purchases, where favoritism continues.[6]

In spite of the possible difficulties facing its implementation, one can conclude that both the NAFTA and the ITA are influencing all of Canadian society to link it up with the hemispheric economy of the North American bloc. VM

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[6] See John Britton, *Canada and the Global Economy* (Montreal: McGill Queen's University Press, 1996).