

RESEARCH REPORT

Trade Barriers in Atlantic Canada: Opportunities for Regulatory Reform

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Trade Barriers in Atlantic Canada: Opportunities for Regulatory Reform

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Abbreviations

AIT: Agreement on Internal Trade

CETA: Comprehensive Economic and Trade Agreement (Canada-EU)

CFIA: Canada Food Inspection Agency

CFIB: Canadian Federation of Independent Business

GDP: Gross domestic product (a standard measure of the size of an economy)

IFTA: International Fuel Tax Agreement

MASH: Municipalities, academic institutions, school boards and health authorities

NAFTA: North American Free Trade Agreement (Canada-Mexico-US)

NWTPA: New West Trade Partnership Agreement (Alberta-British Columbia-Saskatchewan)

OH&S: Occupational health and safety

PARE: Partnership Agreement on Regulation and the Economy (Nova Scotia-New Brunswick)

SME: Small and medium-sized enterprise (typically defined as having less than 500 employees)

SOLAS: Safety of Life at Sea convention

TCA: Trade and Cooperation Agreement (Ontario-Quebec)

TILMA: Trade, Investment and Labour Mobility Agreement (Alberta-British Columbia)

Executive Summary

Regulation is an important and pervasive part of our everyday life. While intended to promote legitimate public policy goals such as those relating to health, safety and the environment, regulations are not always ideally designed or implemented, or they may vary from one place to another, impeding trade. As a result, regulations can unnecessarily increase the costs and risks to business, reducing the competitiveness of firms and weakening the economy.

This report documents the importance of interprovincial trade in Atlantic Canada, highlighting the key goods and services that cross provincial boundaries. It provides a synopsis of the key trade and regulatory barriers facing Atlantic firms based upon a review of the literature and interviews with businesses that operate in multiple Atlantic provinces. Drawing on these business interviews APEC identifies specific opportunities for reform to reduce the regulatory burden on Atlantic firms.

The Rationale for Atlantic Regulatory Reform

Atlantic Canada is a small market that is further fragmented by provincial borders and differing standards and regulations, placing its firms at a competitive disadvantage relative to firms in larger provinces. For example, a business in Ontario can access a market six times larger within one set of provincial regulations; to reach all of Atlantic Canada an Atlantic firm must comply with four sets of provincial standards and regulations to tap into a market that is 15% of the size of Ontario.

Interprovincial trade barriers arise from three main sources: natural barriers, such as distance; barriers due to preferences favouring local producers (such as local content rules, local resource processing and preferences in government procurement); and differences in regulations among jurisdictions, which may affect interprovincial trade flows, multi-jurisdiction firms and interprovincial labour mobility. In addition, all firms face the cost of compliance with government regulations, even within their own jurisdiction.

The impact of these interprovincial trade barriers on business operations can include increased costs to manage different provincial standards; reduced efficiency, because they cannot optimize their deployment of equipment, staff or products because of different provincial regulations; lower revenue due to market barriers; impeded client service because specialized staff are not approved to serve clients in other provinces; and reduced investment, because of uncertainty created by the regulatory environment. Government costs may also be higher than necessary to maintain these different provincial regulations.

Reducing these barriers and reforming the regulatory environment has the potential to boost the region's output, which is especially important given the region's economic, demographic and fiscal outlook. By reducing regulatory compliance costs, Atlantic firms will face lower costs and have more resources to invest in developing new products and markets.

Interprovincial trade is particularly important to Atlantic Canada's economy, accounting for 59% of GDP, compared with 39% nationally. Atlantic Canada's total interprovincial trade (i.e., exports plus imports) amounts to \$65 billion with interprovincial exports supporting about 1 in 6 jobs.

The estimated trade costs, arising from barriers which make it more difficult to trade in one direction than another, are also higher in the Atlantic provinces than nationally. Reducing these internal trade barriers across Canada is therefore particularly important for the Atlantic region.

Quantifying the economic cost of interprovincial trade barriers is challenging. However, recent empirical research suggests the long run gains in Atlantic Canada's GDP from removing all barriers to trade among all ten Canadian provinces, could be as high as 7.6% of GDP (\$8.5 billion). A 10% reduction in trade costs among the three Maritime provinces alone is also estimated to boost their GDP by a combined 1.4%.

Guidelines for Regulatory Reform to Help Atlantic Firms

Regulatory reform is a challenging undertaking due to the multiple regulations affecting Atlantic businesses and the fact that there are multiple regulators involved (including federal, provincial and municipal governments as well as non-government regulators). Different options for regulatory reform, such as mutual recognition or harmonization, need to be evaluated. While some reforms may have clear benefits for all stakeholders, such as simplifying regulations that are unnecessarily complex, standardizing language and processes, or removing outdated regulations, others may have uneven impacts. Quantifying the economic gains from specific reforms can be difficult, but is especially important when there are government revenue or expenditure implications.

In terms of improving the regulatory environment, Atlantic businesses want a level-playing field, consistency among jurisdictions and consistent application of regulations. Certainty and simplicity are also important to reducing business risk.

Atlantic regulatory reform should prioritize issues with the largest economic impact, including areas with broad economic reach and industries with the largest spillovers to other sectors. An effective and comprehensive regional trade and cooperation agreement

could help advance regulatory alignment within the region. As the regulatory issues facing Atlantic firms extend beyond regional boundaries, governments should also pursue regulatory reform and alignment nationally and internationally.

Opportunities for Atlantic Regulatory Reform

Atlantic business leaders pointed to numerous regulatory issues that add to their costs and impede their competitiveness. APEC recommends that regulatory issues that affect a larger segment of the economy be prioritized over individual industry-specific issues as, in general, they are likely to have the broadest economic impact.

The Atlantic provinces export about \$10 billion worth of goods and services to other Atlantic provinces. In terms of interprovincial trade, APEC recommends prioritizing regulatory differences and barriers that affect the trucking industry and the production and sale of alcoholic beverages.

Multi-jurisdiction firms – those that operate in more than one Atlantic province – account for 43% of total business sector employment within the region. In terms of issues affecting these firms, APEC recommends achieving greater alignment in labour standards, safety standards and corporate registrations.

Atlantic provincial and municipal governments spend about \$16 billion annually on goods, services and capital expenditures. Business interviews point to opportunities for greater openness in government procurement and the potential for savings through greater standardization and joint procurement.

In general labour mobility issues were not identified as large barriers, although there are additional costs required for individuals in regulated occupations who need to be licensed in multiple provinces to serve their Atlantic clients. The regional recognition of safety training and restrictions on lawyers working in other provinces were identified as issues but the interview sample size for this research was not large enough to cover all regulated occupations.

Chapter 1

Introduction

Regulation is a pervasive feature of everyday life. We wake up in the morning to the sound of our clock radio, which is manufactured according to product regulations, and with the radio station regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). When we shower, turn on the taps and flush the toilet, our water and wastewater are subject to environmental standards. When we drop off our kids at daycare or school, there are standards that regulate the facilities and education they receive. When we drive to work, the construction of the roads we drive on, the manufacture of the vehicles we drive and the rules of the road are all regulated. The commuter ferry we board is subject to safety regulations. When we get to our office, the elevator is subject to safety standards, as is the construction of the building we work in. Our employers are bound by labour standards governing our work. The food service establishment we eat at during lunch is subject to food safety regulations. When we purchase food on the way home for supper there are regulations governing food safety. There are by-laws pertaining to off-leash areas where we take our dog for a walk. And when we go to the mall after supper, there are regulations regarding advertising, electronics recycling and product returns. From morning to night, we live in a society that is governed by regulations.

Although we live in a highly regulated society, most of us, as we go about our everyday lives, are not aware of these regulations. It is only when we are caught breaking a regulation (e.g., a parking or speeding ticket) or that we want to do something new (e.g., a major home renovation project that requires a building permit or register a new business), that we realize there are regulations that need to be complied with.

So why do businesses seem to routinely complain about the regulatory environment they face and why do governments make repeated efforts at regulatory reform (e.g., smart regulation, red tape reduction)? It is because regulations, while intended to promote legitimate public policy goals such as those relating to health, safety and the environment, are not always ideally designed or implemented, or they may vary from one place to another, impeding trade. As a result, regulations can unnecessarily increase the costs and risks to business, reducing the competitiveness of firms and weakening the economy. Consumers will likely also face higher prices but will often be unaware that prices are higher than necessary or that their product and supplier choice has been limited.

The negative economic effects of excessive or badly designed regulation are particularly significant in Atlantic Canada. The total population of the Atlantic region, at 2.4 million, is tiny – smaller than the population of Vancouver and 40% of the size of Toronto. Atlantic Canada’s growth performance has been weak in recent years with APEC forecasting slower growth over the medium term due to population aging.¹ These economic and demographic trends are also creating fiscal pressures which are already apparent and will create longer-term challenges.²

It is in this context that in January 2015 the four Atlantic Premiers launched the Atlantic Red Tape Reduction Partnership to identify business regulations and administrative processes that can be harmonized and streamlined across Atlantic Canada.³

In March 2015 the governments of Nova Scotia and New Brunswick went further, announcing the creation of a Joint Office of Regulatory Affairs and Service Effectiveness (hereafter ‘the Office’).⁴ In November 2015, Prince Edward Island officially joined the Office, making it a Maritime initiative.⁵ This initiative differs from previous regulatory exercises (see Appendix B and C) with its unique stand-alone interprovincial office that reports directly to the Premiers, backed up by mirror legislation in each province requiring regulatory accountability (including public reporting), and with its own dedicated resources.⁶

The mandate of the Office is to reduce, improve and align the regulatory environment in the Maritime region to enhance the business climate and the region’s economic competitiveness, without compromising health and safety, environmental, employee and consumer interests.⁷ The three Maritime Premiers have adopted a “Charter of Governing Principles for Regulation” outlining a shared vision for regulation.⁸ The core themes of the Charter are that regulation should be: a last resort, in the lightest form possible; based on a compelling cost-benefit analysis; and established through a transparent and consultative process.

¹ APEC (2015). Atlantic Canada Economic Outlook 2016: (S)Lower for Longer. *Atlantic Report*, Fall. Halifax: APEC, p. 1-7.

² Drummond, Don and Capeluck, Evan (2015). *Long-term Fiscal and Economic Projections for Canada and the Provinces and Territories, 2014-2038*. Ottawa: Centre for Study of Living Standards.
<http://www.csls.ca/reports/csls2015-08.pdf>.

³ Council of Atlantic Premiers (2015, January 19). Atlantic Premiers are Focused on Improving Competitiveness. [News Release]. <http://novascotia.ca/regulatoryopportunity/documents/Council-of-Atlantic-Premiers-communicue.pdf>.

⁴ Government of Nova Scotia (2015, March, 24). Nova Scotia, New Brunswick to Cut Red Tape. [News Release]. <http://novascotia.ca/news/release/?id=20150324002>.

⁵ Government of New Brunswick (2015, July, 23). Prince Edward Island joins regional office. [News Release]. http://www2.gnb.ca/content/gnb/en/news/news_release.2015.07.0718.html. This became official November 2015.

⁶ The Joint Office of Regulatory Affairs and Service Effectiveness (2016). *It’s Time: Regulatory Reform and Modernization, 2015/16 Annual Report*. Halifax: Government of Nova Scotia, p. 32.
<http://novascotia.ca/regulatoryopportunity/report/>.

⁷ <http://novascotia.ca/regulatoryopportunity/>.

⁸ <http://novascotia.ca/regulatoryopportunity/premiers-%20charter.asp>.

Through the work of the Office, the three Maritime Premiers have agreed to: adopt common procedures and documents for government procurement; eliminate unnecessary differences in employment standards reporting requirements; and adopt a shared date of April 1st for minimum wage changes.⁹

The Office has also taken a leadership role in the Atlantic Red Tape Reduction Partnership. In May 2016 the four Atlantic Premiers announced progress in three areas, making commitments to: use the One Business One Number system for Workers' Compensation Boards and Commissions; work towards mutual recognition of targeted occupational health and safety equipment and safety training standards; and assess options for standardizing the carrier profile system in the trucking sector.¹⁰

APEC was asked by the Office to help identify additional areas for regulatory reform. This report documents the importance of interprovincial trade in Atlantic Canada, highlighting the key goods and services that cross provincial boundaries. It discusses the barriers that can impede interprovincial trade and empirical estimates of the cost of these barriers. The report articulates the rationale for regulatory reform in Atlantic Canada, discusses some of the challenges and complexities of such reform, and provides some broad guidelines to improve the regulatory environment for Atlantic businesses. Based upon interviews with firms in Atlantic Canada (see Box, Business Interviews: Research Methodology) APEC identifies specific opportunities for regulatory reform.

Overview

Chapter Two reveals the importance of interprovincial trade and the size of existing flows within the Atlantic region. It also points to the important role played by firms that operate in multiple provinces and the role of labour mobility in providing goods and services across provincial borders. Supplementary tables and charts are provided in Appendix A.

Chapter Three describes the different types of interprovincial trade barriers and reviews the evidence on the size of these barriers. While historical national estimates are generally very small, recent analysis at the provincial level points to more substantial costs. Some lessons from regulatory reform initiatives are briefly highlighted (with a summary of these initiatives provided in Appendix B and C).

Chapter Four articulates the rationale for undertaking regulatory reform in Atlantic Canada, highlighting the region's small market that is fragmented by four sets of provincial regulations. Some of the challenges and complexities of regulatory reform are discussed, and the types of regulatory reform that are needed, from the perspective of

⁹ <http://novascotia.ca/regulatoryopportunity/plan-of-action.asp>.

¹⁰ Council of Atlantic Premiers (2016, May 16). Atlantic Premiers are focused on economic growth. [News Release]. <http://www.cap-cpma.ca/images/CAP%2028%20Communique%20FINAL-EN.pdf>.

Atlantic business leaders, are summarized. It is also pointed out that for many Atlantic firms, their regulatory challenges are not limited to those under direct provincial jurisdiction, necessitating a broader commitment to improve the region's regulatory environment. Atlantic businesses also point to the need to pursue regulatory alignment at the national and international level.

Business Interviews: Research Methodology

APEC conducted telephone interviews with business leaders (typically business owners, Presidents, CEOs or general managers) in about 30 firms, representing about 27 different industries. The firms were selected to cover all major industries that are involved in interprovincial trade within Atlantic Canada, with a focus on firms that operate in multiple Atlantic provinces. Industries that are under direct federal regulation, such as banking and telecommunications, were not included. The interviews included a mix of small, medium-size and large firms. The businesses had headquarters or regional headquarters in all four Atlantic provinces. The business interviews were completed between 12 April and 16 May, 2016. In addition, a small number of interviews with industry associations were also conducted to complement the business interviews.

The interviews focused on interprovincial trade barriers, regulatory issues faced by multi-jurisdiction firms, labour mobility, public procurement (if applicable) and the overall regulatory burden. Firms were asked to identify the biggest barriers they faced and to rate them on a 1-10 scale (1=no barrier, 10=prohibitive) as well as to rate the overall regulatory burden on a similar 1-10 scale.

Chapter Five provides APEC recommendations for prioritizing regulatory reform in Atlantic Canada in areas such as transportation, labour standards, corporate registration, and safety. There is also scope for further improvements in public procurement and labour mobility. These opportunities are based upon interviews with Atlantic business leaders and are most likely to have the broadest regional impact.

Chapter Six provides a brief summary of the key finding and recommendations.

Chapter 2

The Importance of Interprovincial Trade

Chapter Summary

- **Atlantic Canada's total interprovincial trade (exports plus imports) amounts to \$65 billion, about 59% of GDP. Interprovincial exports generated 178,000 jobs in 2007, accounting for about 1 in 6 jobs.**
- **The Atlantic provinces export about \$10 billion worth of goods and services to other Atlantic provinces, accounting for about 30% of total interprovincial trade. About 55% of Atlantic Canada's interprovincial trade is with Central Canada.**
- **Energy accounts for the largest trade flows within Atlantic Canada but transportation and wholesale services; food and beverages; and business, professional and financial services are also important.**
- **About 2,700 firms operate in more than one Atlantic province but these firms employ almost 300,000 workers, about 43% of total business sector employment. These firms have to comply with different regulations in each province.**
- **Labour mobility is important for staff recruitment, development and the provision of services across provincial borders. Within Atlantic Canada, about 8,700 people move from one Atlantic province to another each year, with a further 25,000-30,000 moving from or to other provinces in Canada. In addition, APEC estimates there about 12,500 employees that reside in one Atlantic province but earn income in another.**

This chapter reveals the importance of interprovincial trade and the size of existing flows within the Atlantic region (with supplementary tables and charts provided in Appendix A). It also points to the economic importance of firms that operate in multiple provinces. Some of these firms also provide goods and services across provincial borders but they all provide administrative and head office services to support their multiple provincial locations. The role of labour mobility is also highlighted. The ability of firms to access labour from other provinces is important for their competitiveness. Some firms also rely on specialized personnel to provide services in multiple provinces. Barriers to the movement of goods, services or labour, including differences in regulations and standards among provinces, can impede these trade flows.

2.1 Interprovincial Trade

Atlantic Canada's interprovincial trade amounts to \$65 billion with its interprovincial exports accounting for about 1 in 6 jobs.

Atlantic Canada's total interprovincial trade (i.e., exports plus imports) amounts to \$65 billion, about 59% of total GDP.¹¹ Total interprovincial exports to all provinces in Canada generated 178,000 jobs in the Atlantic region in 2007, accounting for about 1 in 6 jobs (or 16% of total employment), slightly more than the number of jobs created by international exports.¹²

Atlantic Canada's total interprovincial trade is about 80% of the size of its international trade. But interprovincial trade is much more important than international trade for Prince Edward Island and is slightly larger than international trade in Nova Scotia.

Table 2.1 Trade is Vitaly Important to Atlantic Canada's Economy
Exports and imports of goods and services, 2014

	Dollar value (\$ billions)				Share of GDP (%)					
	Interprovincial		International		Interprovincial			International		
	Exports	Imports	Exports	Imports	Exports	Imports	Total	Exports	Imports	Total
Goods										
CA	168	168	534	542	9	9	17	27	28	55
ATL	14	15	34	41	13	14	27	31	37	67
NL	4	3	13	11	12	10	23	38	34	72
PE	1	1	1	1	13	18	30	13	19	32
NS	3	6	7	11	8	15	23	17	28	45
NB	6	5	14	17	20	16	35	42	54	96
Services										
CA	213	213	91	101	11	11	22	5	5	10
ATL	12	24	4	4	11	21	32	3	3	7
NL	2	6	1	1	6	19	25	2	3	5
PE	1	2	0	0	14	26	40	6	2	8
NS	4	8	1	2	11	21	32	4	4	8
NB	5	8	1	1	15	24	39	3	4	7
Total										
CA	381	381	625	643	19	19	39	32	33	64
ATL	26	39	37	44	24	35	59	34	40	74
NL	6	10	14	12	18	29	47	41	36	77
PE	2	3	1	1	27	43	70	19	21	40
NS	7	14	8	12	19	37	55	21	32	53
NB	11	13	15	18	35	39	74	46	57	103

Source: Statistics Canada, CANSIM Table 384-0038

¹¹ Latest data are for 2014.

¹² International exports accounted for 149,000 jobs, about 14% of total employment (1 in 7 jobs).

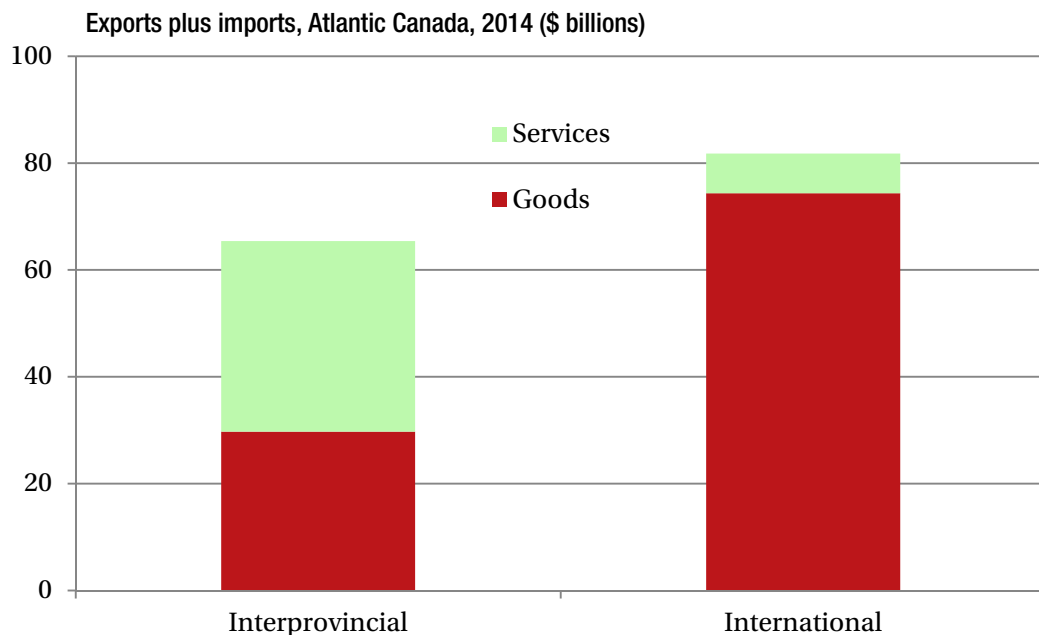
While Atlantic Canada’s international trade in goods is much larger than its interprovincial trade, its interprovincial trade in services is much larger than its international trade in services (Figure 2.1). Just over half (55%) of Atlantic Canada’s interprovincial trade is in services, whereas less than 10% of its international trade is in services.

About 55% of Atlantic Canada’s interprovincial trade is in services.

Another key feature of trade flows within Canada is that all four Atlantic provinces are more dependent on interprovincial trade than Canada as a whole. In Canada, interprovincial trade amounts to 39% of GDP, compared with 59% in Atlantic Canada. All four Atlantic provinces are net importers of interprovincial trade (i.e., imports exceed exports) with large interprovincial trade deficits in services. Both New Brunswick and Newfoundland and Labrador are net interprovincial exporters of goods, due to their exports of energy products.

All four Atlantic provinces are more dependent on interprovincial trade than Canada as a whole.

Figure 2.1 Services Account for About Half of Interprovincial Trade Flows



Source: Statistics Canada, CANSIM Table 384-0038

A final feature to note about the interprovincial trade flows is that they are vitally important to Atlantic Canada’s international trade. In 2007, between 24% and 42% of the value of international exports from the three Maritime provinces was dependent upon inputs from other provinces (see Box: Interprovincial Imports as Inputs into Atlantic Canada’s Exports). Interprovincial inputs also account for a similar proportion of interprovincial exports. The key message here is that, in a world of global value chains, any barrier to trade in one market can have a knock on effect as higher input costs feed through into reduced competitiveness, revealed through higher export prices or lower

Interprovincial inputs are essential for Atlantic Canada’s international exports.

profit margins. Even within Canada, Statistics Canada shows that business purchases of inputs and capital investment accounts for 67% of all interprovincial trade.¹³

Interprovincial Imports as Inputs into Atlantic Canada's Exports

Global production is organized in value chains where different parts of the production process takes place in different locations. As a result, products and services flow across provincial and international borders as inputs and intermediate products before reaching the final consumer.

This means that interprovincial trade is not just important for domestic production. Interprovincial imports are also used as inputs into international exports. In 2007, Atlantic Canada imported almost \$7 billion worth of goods and services from other provinces that were used to produce their international exports. Barriers that prevent or raise the cost of interprovincial imports can therefore impede the international competitiveness of a province's businesses.

The Maritime provinces are more dependent on interprovincial inputs than other regions of Canada. Nationally, 14% of the value of international exports in 2007 were produced using interprovincial inputs. In the Maritime provinces, this proportion ranged from 24% in Nova Scotia to 30% in New Brunswick and 42% in Prince Edward Island. The ratio in Newfoundland and Labrador was only 9%. Manitoba (26%) and Saskatchewan (21%) were the only other provinces with ratios above 20%. The three largest interprovincial imports in Atlantic Canada's international exports in 2007 were mineral fuels (28%), fish and other food products (17%) and forest products (16%).

Similarly, interprovincial imports are used as inputs in interprovincial exports. In 2007, the Atlantic provinces imported almost \$6 billion in goods and services from other provinces that were then used as inputs in their exports to other provinces. Nationally, about 15% of the value of interprovincial exports arise from interprovincial inputs. In the Maritime provinces, this ratio varies from 25% in Nova Scotia, to 30% in New Brunswick to 42% in Prince Edward Island (but only 10% in Newfoundland and Labrador). Small provinces are more dependent on such interprovincial trade with Manitoba and Saskatchewan having ratios of 27-28%. The three largest interprovincial imports in Atlantic Canada's interprovincial exports in 2007 were mineral fuels (21%), fish and other food products (16%) and forest products (13%).

Source: Chaundy, David (2007). *Taking on the World: Atlantic Canada's Role in Global Value Chains*. Halifax: APEC. Data from Statistics Canada (custom tabulation).

Atlantic Canada's exports to other Atlantic provinces amounted to \$10 billion in 2012.

Atlantic Canada's exports to other Atlantic provinces amounted to \$10 billion in 2012.¹⁴ This is about 33% of their total interprovincial exports to all Canadian jurisdictions, and about 26% of their total interprovincial imports. These exports sustained about 64,000 direct and indirect jobs in 2007, about 6% of total Atlantic employment. Prince Edward

¹³ Tebrake, James (2016). *Interprovincial Trade Flows: Presentation to the Senate Committee on Banking, Trade and Commerce*. http://www.parl.gc.ca/content/sen/committee/421/BANC/Briefs/2016-03-09BANC_InterprovincialTradeFlows_E.pdf.

¹⁴ The most recent data on the origin and destination of interprovincial trade are for 2012.

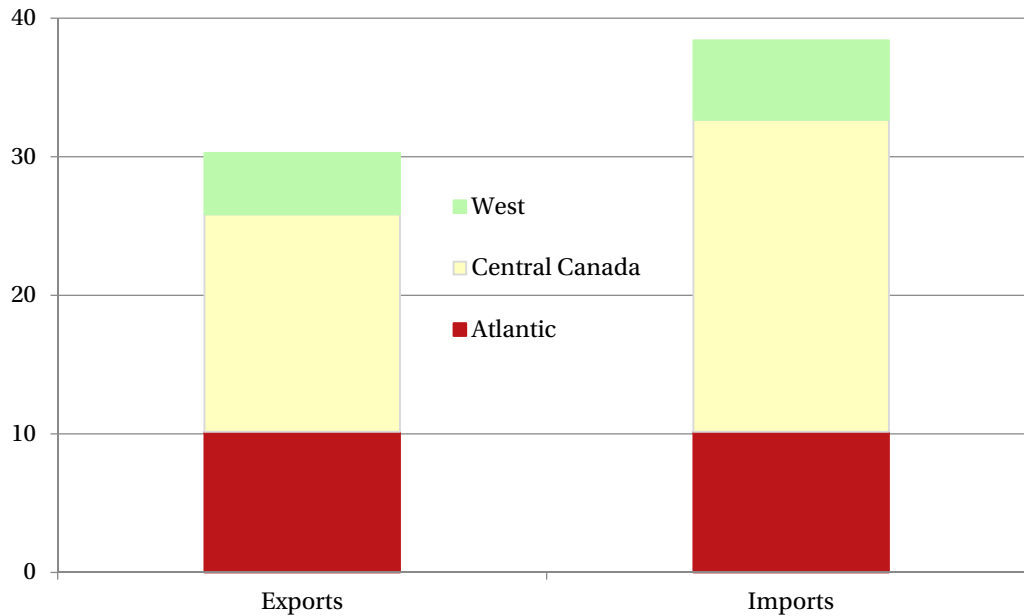
Island is most dependent on trade with its Atlantic neighbors, with regional partners accounting for 42% of its interprovincial imports and 47% of its interprovincial exports.

About 55% of the Atlantic region's interprovincial trade is with Central Canada and about 15% is with the Western provinces (Figure 2.2). Ontario is the largest source of provincial imports for all Atlantic provinces (Appendix A, Figure A.1), and the largest export market for all four provinces with the exception of New Brunswick where Quebec dominates (most likely due to exports of refined petroleum).

About 55% of the Atlantic region's interprovincial trade is with Central Canada.

Figure 2.2 Central Canada is the Atlantic Region's Largest Trading Partner

Interprovincial trade by origin and destination, Atlantic Canada, 2012 (\$ billions)



Source: Statistics Canada, CANSIM Table 381-0035

The Atlantic provinces account for about 10% of all interprovincial trade flows in Canada (Appendix A, Table A.1). The largest interprovincial trade flows in Canada are between Ontario and Quebec, among the western provinces, and between Central Canada and the West (Appendix A, Figure A.2).

Within the Atlantic region, the largest trade flows (other than for crude oil from Newfoundland) are between Nova Scotia and New Brunswick, with both provinces relatively large exporters to Newfoundland and Labrador (Appendix A, Figure A.3).

Energy products as a whole dominate Atlantic Canada's interprovincial trade, accounting for 27% of exports to other Atlantic provinces in 2012 (Table 2.2). This largely consists of crude oil exports to New Brunswick and Nova Scotia (although more recent

Energy products dominate Atlantic Canada's trade, accounting for 27% of exports to other Atlantic provinces.

data should show the end of flows to Nova Scotia because of the closure of the Imperial Oil refinery in Dartmouth).

Table 2.2 Primary Goods are Important to Trade Within Atlantic Canada

Atlantic exports to other Atlantic provinces, 2012 (\$ millions)

	NL	PE	NS	NB	ATL	ATL share (%)
Energy and mining	2,656	18	22	81	2,777	27.4
Mineral fuels	2,614	0	4	0	2,618	25.8
Utilities	35	18	0	81	134	1.3
Transport and wholesale margins	249	144	655	682	1,730	17.1
Transportation	137	89	312	438	977	9.6
Wholesale & retail margins	112	54	343	244	754	7.4
Food and seafood	236	183	454	447	1,319	13.0
Food & agriculture	65	157	351	414	987	9.7
Seafood	171	25	103	33	332	3.3
Business, professional & financial services	136	182	374	466	1,158	11.4
Business & professional services	86	157	150	379	772	7.6
Financial services, real estate & leasing	30	19	163	56	267	2.6
Telecommunications & information services	20	6	62	30	118	1.2
Industrial & consumer products	18	35	317	227	596	5.9
Tourism related	48	66	173	257	545	5.4
Forest products & forestry	19	29	119	229	397	3.9
Other services	24	17	92	63	197	1.9
TOTAL	3,404	696	2,627	3,420	10,146	100.0

Source: Statistics Canada, CANSIM Table 381-0035

Transportation accounts for about 10% of trade within the Atlantic region rising to 17% when wholesale and retail services (margins) are included. Food products (13%) and business, professional and financial services (11%) are also important contributors to the region's trade flows.

2.2 Multi-Jurisdiction Firms

While interprovincial trade flows are important, firms that do or want to operate in multiple jurisdictions may also face challenges due to differences in regulations in each of the provinces that they operate in.

In Atlantic Canada, about 90% of all firms only operate in one Atlantic province (Table 2.3). But most of these firms are very small with an average of 6 employees. By contrast, regional firms that operate in more than one Atlantic province, but not elsewhere in

Canada, employ an average of 46 workers. When it comes to total employment, the 2,700 firms that operate in more than one Atlantic province (whether they operate elsewhere in Canada or not) account for 43% of total business sector employment within the region; the majority of these jobs are within national enterprises.

Firms that operate in more than one Atlantic province account for 43% of total business sector employment within the region

Table 2.3 Multi-Jurisdiction Firms Account for Almost Half of Atlantic Business Sector Employment

Number of firms in Atlantic Canada and Atlantic business sector employment, 2011

Firms by number of locations	Number of firms	Share of Atlantic firms (%)	Number of Atlantic employees	Share of Atlantic employment (%)
Only in 1 Atlantic province	60,460	90.7	347,000	50.3
Only in 2-4 Atlantic provinces	1,190	1.8	55,000	8.0
In 1 Atlantic province plus at least one other province	3,500	5.2	45,500	6.6
In 2-4 Atlantic provinces plus at least one other province	1,540	2.3	242,000	35.1
Atlantic Canada (Total)	66,680	100.0	689,500	100.0
Only 1 Atlantic province	63,960	95.9	392,500	56.9
2-4 Atlantic provinces	2,730	4.1	297,000	43.1

Note: Data for business sector only. Totals may not sum due to rounding. The employment measure used is the average labour unit (ALU): <http://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=8013>.

Source: Statistics Canada, Longitudinal Employment Analysis Program (LEAP), custom tabulation.

The largest source of employment for firms that only operate in one Atlantic province is in retail trade (18%), accommodation and food services (15%) and construction (12%). For firms operating in multiple Atlantic provinces, the largest employers are in retail trade (23%), manufacturing (14%), and finance and insurance (10%). This reflects the importance of national retail chains and financial services firms within the region.

Some industries are more local than others (Table 2.4). Industries with a dominant proportion of Atlantic employment in only one Atlantic province include other services (85%), which includes repair shops and personal services such as hairdressers.

Employment in primary industries (79%), which includes agriculture; accommodation and food services (79%); and construction (76%) is also concentrated in firms that only operate in one Atlantic province.

Industries where most Atlantic employment occurs in multi-jurisdiction firms include information and cultural industries (79), which would include telecommunication firms; finance and insurance (72%); and transportation (61%).

Table 2.4 Some Firms are More Local, Others are More Regional or National
Distribution of Atlantic employment by number of locations, 2011

Industry	Number of employees		Employees as a share of total employees (%)		Employees as share of industry total (%)	
	Only 1 Atlantic province	2-4 Atlantic provinces	Only 1 Atlantic province	2-4 Atlantic provinces	Only 1 Atlantic province	2-4 Atlantic provinces
Unclassified	10,400	500	2.6	0.2	96	5
Primary industries (inc utilities)	31,900	8,400	8.1	2.8	79	21
Construction	48,200	14,900	12.3	5.0	76	24
Manufacturing	41,700	41,200	10.6	13.9	50	50
Wholesale trade	16,600	16,700	4.2	5.6	50	50
Retail trade	71,900	67,600	18.3	22.7	51	49
Transportation & warehousing	16,100	25,500	4.1	8.6	39	61
Information & cultural industries	4,500	17,500	1.1	5.9	20	79
Finance and insurance	11,400	29,700	2.9	10.0	28	72
Real estate, rental & leasing	10,100	4,800	2.6	1.6	68	32
Professional services	19,800	15,400	5.0	5.2	56	44
Business services & waste management	24,000	27,200	6.1	9.2	47	53
Accommodation & food services	57,200	15,200	14.6	5.1	79	21
Other services	15,200	2,700	3.9	0.9	85	15
Total	392,500	297,000	100.0	100.0	57	43

Note: Data for business sector only. Totals may not sum due to rounding. The employment measure used is the average labour unit (ALU): <http://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=8013>.

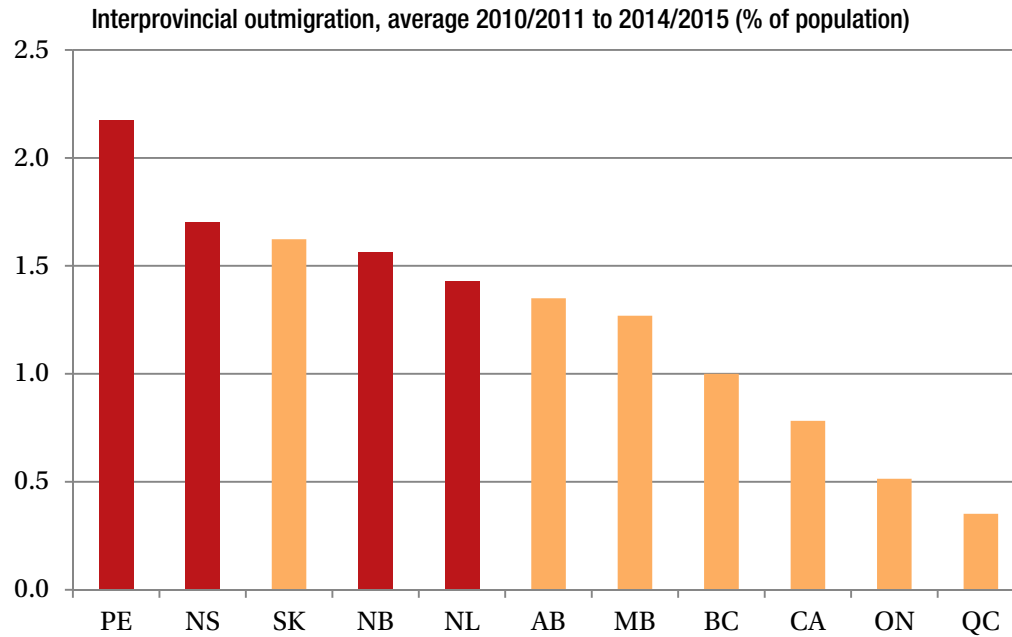
Source: Statistics Canada, Longitudinal Employment Analysis Program (LEAP), custom tabulation

2.3 Interprovincial Labour Mobility

Workers, as well as goods and services, move across provincial borders. This is important for firms seeking to attract labour and for mobility within firms as individuals move to business locations in other provinces as part of their career development.

Atlantic Canadians tend to be very mobile, with 1.6% of the population moving to another province each year.

Atlantic Canadians tend to be very mobile. For example, over the last five years, about 1.6% of the Atlantic population moved to another province in Canada each year, compared with the national average of 0.8% (Figure 2.3). The majority (55-60%) of individuals moving to or from Atlantic Canada tend to be in their prime working years (25-64 years) with only about 5% aged 65 years and older. The remainder (35-40%) are children and young adults who are completing their post-secondary education and entering the workforce full-time.

Figure 2.3 High Outmigration Rates from the Atlantic Provinces

Source: Statistics Canada, CANSIM Tables 051-0019 and 051-0001

There tend to be high rates of in- and out-migration. Over the last five years, an average of 30,000 Atlantic Canadians moved out of the region each year, with an average of 25,000 residents from elsewhere in Canada moving to (or back to) the Atlantic provinces. Within Atlantic Canada, about 8,700 people move from one Atlantic province to another each year. The Atlantic provinces therefore account for about 22-26% of all interprovincial migration flows to and from Atlantic Canada, similar to their share of Atlantic Canada's interprovincial trade flows (see Section 2.1).

While Ontario was a traditional destination for Atlantic Canadians, Alberta has become an increasingly important destination, driven by the oil boom in that province (Appendix A, Figure A.4). But flows to Alberta also tend to rise and fall with oil prices with outflows to Alberta likely to be much lower over the next few years. Alberta has not just been a magnet for Atlantic Canadians. Rather, it has attracted workers from across the country in recent years (Appendix A, Figure A.5).

Within Atlantic Canada, the largest interprovincial migration flows are between Nova Scotia and New Brunswick with about 2,000 people moving each way every year (Appendix A, Figure A.6). Over the last five years, there have also been about 1,000 people moving each way between Nova Scotia and Newfoundland and Labrador.

It is not just interprovincial relocations that are important for labour mobility. Some workers live in one province but their place of work is in another province (such as those Atlantic Canadians that have commuted to Fort McMurray to work in the oil sands). These are known as interprovincial employees. There were about 420,000 interprovincial employees in Canada in 2011, about 3% of the paid workforce.¹⁵

The Atlantic provinces have relatively high rates of interprovincial employment.

The Atlantic provinces have relatively high rates of interprovincial employment (Figure 2.4). In 2011, Newfoundland and Labrador had the highest share of paid employment in interprovincial employment at 10%, followed by Prince Edward Island (8.5%). New Brunswick (6.1%) and Nova Scotia (5.7%) were also well above the Canadian average (3%). In total, there were about 66,000 interprovincial employees from Atlantic Canada in 2011.

Figure 2.4 Interprovincial Employment is Relatively More Important in Atlantic Canada



Source: Morissette and Qiu (2015).

Alberta was the largest source of earnings for interprovincial employees from Atlantic Canada. In 2011, Alberta accounted for 57% of the employment income for interprovincial employees from Newfoundland and Labrador and 45% for those from Prince Edward Island. Alberta was also the largest source of earnings for interprovincial employees in Nova Scotia (39%) and New Brunswick (37%). Ontario is also an important province, accounting for 13-22% of earnings for interprovincial employees from the Atlantic provinces (Appendix A, Figure A.7).

¹⁵ Morissette, Rene and Qiu, Hanqing (2015). *Interprovincial Employment in Canada, 2002 to 2011*. Ottawa: Statistics Canada.

APEC estimates that in 2011 there were about 12,500 employees who lived in one Atlantic province but worked in another Atlantic province in 2011 (Appendix A, Table A.2). The largest flows (Appendix A, Figure A.8) were between Nova Scotia and New Brunswick (with a total of 5,600 workers working in the other province) and between Nova Scotia and Newfoundland and Labrador (with 3,000 individuals working in the other province).

An estimated 12,500 employees reside in one Atlantic province but work in another Atlantic province.

Individuals Who Do Work Outside of Their Home Province

Some individuals reside and are paid by their employer in one province but perform work for clients in multiple provinces because of their specialist expertise or the nature of their work. In some cases they may physically travel to do this work; in other cases they may be able to provide these services from their home office.

While this type of work is important for potential barriers to labour mobility, there are no data on the number of workers or which occupations this most affects. Data on interprovincial flows of services in Atlantic Canada (see Section 2.1), however, suggests this type of activity is most important for business services (which includes call centres) and head offices; transportation (e.g., truck drivers travelling through the region); and professional services (which includes engineers, accountants, lawyers and IT professionals). While interprovincial trade flows are also important to the accommodation and food services industry, in this case it is the tourists and business travellers that move rather than the employee.

Chapter 3

Interprovincial Trade Barriers

Chapter Summary

- **Interprovincial trade barriers arise from three main sources: natural barriers, such as distance and lack of infrastructure; barriers due to preferences favouring local producers; and differences in regulations among jurisdictions. In addition, all firms face the cost of compliance with government regulations, even within their own jurisdiction.**
- **Historical estimates of the cost of interprovincial trade barriers in Canada have generally been very small, typically less than 0.25% of GDP (\$5 billion). However, recent empirical estimates suggest the gains from removing all trade barriers in Canada could be as high as 3.3% of GDP (\$65 billion). For the Atlantic provinces, the proportionate long run gains in GDP from removing all trade barriers within Canada are estimated to be larger, at 7.6% of GDP (\$8.5 billion).**
- **Governments, including those in Atlantic Canada, have made numerous attempts to reduce barriers to trade within Canada and to reduce the overall regulatory burden. However, there is still work to be done. Trade agreements need to have sufficient scope and strength with effective dispute resolution mechanisms: a negative list approach (where everything is included unless specified) is often preferred. Red tape reduction initiatives need to be sustained with a clear emphasis on measuring progress.**

This chapter provides an overview of the different types of barriers that can impede interprovincial trade. It provides a brief summary of the historical literature on the cost of these interprovincial trade barriers within Canada, including discussion of more recent empirical work that provides estimates by province. Some key lessons from initiatives to reduce trade barriers and the overall regulatory burden are also highlighted.

3.1 Types of Interprovincial Trade Barriers

Interprovincial trade barriers can arise from three main sources: natural barriers; local economic development preferences; and regulations that differ by jurisdictions (see

Table 3.1 for examples).¹⁶ Each of these impedes selling goods and providing services across provincial borders. In addition, all firms face costs of compliance with government regulations, even within their own jurisdiction, whether trade-related or not.

Natural barriers are physical or geographic barriers that can generally not be changed by governments.¹⁷ Distance is the most important. The transportation of physical goods and movement of personnel to provide services is not costless and such costs increase with distance. It is well established in the empirical literature that trade declines with the distance between trading partners although transportation costs are not sufficient to explain the decline in trade.¹⁸ The cost of finding information about suppliers or customers in distant jurisdictions, lower trust with suppliers and customers in other jurisdictions, and preferences for local products may also be part of the explanation. The lack of physical infrastructure may also pose a barrier to trade, such as the absence of or limited capacity on electrical transmission lines between provinces.

Governments sometimes seek to support their own economic development by favouring suppliers within their own jurisdiction. For example, there may be explicit or implicit **preferences for local suppliers** in government procurement. Governments may also specify local processing requirements in natural resource industries or require commitments to local content before approving major investment projects. Governments should evaluate whether such policies are actually effective and whether the gains to firms outweigh the costs to consumers or taxpayers. While “infant industry” arguments have long been used, such policies may deter local firms from competitive pressures that impede their longer term innovation, competitiveness and growth.¹⁹ In the alcoholic beverages industry, preferences for small firms may be used to stimulate competition as well as to support local economic development although the design of some of these policies may deter the growth of some suppliers.²⁰

¹⁶ For other examples and categorizations of trade barriers see: Gallant, Mitch (2014). *Building a “New East Partnership”: Breaking down interprovincial trade barriers in Atlantic Canada*. Toronto: Canadian Federation of Independent Business; Whalley, John (2008). *Interprovincial Trade Barriers Towards Goods and Services in Canada: An Issues Paper for Industry Canada. Working Paper*, no. 2007-08, March. Ottawa: Industry Canada; and Grady, Patrick and Macmillan, Kathleen (2007). *Interprovincial Barriers to Internal Trade in Goods, Services and Flows of Capital: Policy, Knowledge Gaps and Research Issues. Working Paper*, no. 2007-11, March. Ottawa: Industry Canada.

¹⁷ Gallant, Mitch (2014), p. 2.

¹⁸ Head, Keith and Mayer, Thierry (2013). What separates us? Sources of resistance to globalization. *Canadian Journal of Economics*, vol. 46, no. 4, pp. 1196-1231.

¹⁹ See for example, Slaughter, Matthew (2004). *Research Report May 2004: Infant- Industry Protection and Trade Liberalization in Developing Countries*. Washington: Nathan Associates Inc. and Stone, Susan, Messent, James and Flaig, Dorothee (2015). *Emerging Policy Issues: Localisation Barriers to Trade. OECD Trade Policy Papers*, No. 180. Paris: OECD Publishing.

²⁰ Bowles, Paul (2013). *An Economic Analysis of Provincial Beer Mark Up Policy in British Columbia*. <http://engage.gov.bc.ca/liquorpolicyreview/files/2013/10/Dr-Paul-Bowles.pdf>.

Table 3.1: Examples of Interprovincial Trade Barriers

Type	Explanation	Example
Natural barriers	Physical or geographic barriers to trade.	The transportation cost of shipping a piece of equipment from New Brunswick to British Columbia. Inter-provincial electricity exports may be impossible due to a lack of transmission capacity.
Local economic preferences		
Government procurement	Government preferences for local suppliers	Cape Breton Regional Municipality may give local firms a 5% price preference over suppliers from outside the municipality for tenders under specified thresholds.
Local content rules	Local content rules may require firms to procure goods and services from within-province providers	Developers of offshore oil projects in Newfoundland and Labrador must establish an office in the province, give first consideration to in-province labour and suppliers, and submit a benefits plan.
Natural resource processing	Incentives or requirements for in-province processing of extracted natural resources	Newfoundland and Labrador specifies minimum processing requirements for different fish species.
Ownership rules	Barriers to or restrictions on non-resident ownership of provincial land, resources or companies	PEI requires non-residents (but not residents) seeking to purchase over 5 acres of land to submit an application and a fee and reserves the right of denial.
Different regulations affecting interprovincial trade		
Sanitary and phyto-sanitary (SPS) regulations	Regulations intended to prevent the spread of substances potentially harmful to human or animal life.	Higher costs to comply with federal regulations for the interprovincial sale of meat relative to within province requirements. Restrictions on movement of spruce from Nova Scotia due to beetle infestation.
Technical regulations	Technical regulations intended to ensure products or equipment comply with safety, environmental or other standards	Permitted dimensions for oversize or over weight loads differ from one province to another.
Non-technical regulations	Other regulations may also pose obstacles to inter-provincial trade.	Different rates of taxation of commercial vehicles may impede their transfer from one province to another.
Different regulations affecting multi-jurisdiction firms		
Corporate registration	Separate and different corporate registration processes across provinces impose costs on multi-jurisdictional firms	Corporations wishing to operate in New Brunswick and Newfoundland and Labrador must generally register with and pay registration fees in both provinces.
Labour standards	Different labour standards	Minimum wages and overtime rates differ by province.
Different regulations affecting labour mobility		
Licensing and occupational standards	Different provincial licensing requirements and standards for professional or trade qualifications	Engineers need to apply for and pay fees to work in multiple provinces. Lawyers can only work up to 100 business days in another province without a license.
Safety standards	Occupational health and safety standards vary by province	Newfoundland and Labrador may not accept safety training taken by workers in another province.

Source: APEC, United Nations Conference on Trade and Development (2013). *Classification of Non-Tariff Measures: February 2012 Version*. Geneva: UNCTAD.

Within Canada, movement of food between provinces is regulated under the national Food and Drugs Act but production of meat for sale within a province, for example, is regulated by individual provinces. Although this means shipments between provinces

are governed by the same set of food safety regulations, it can increase the costs for a producer wanting to expand from intraprovincial trade to interprovincial trade, as provincial food safety regulations may be less stringent and prescriptive. An example of a **sanitary and phyto-sanitary regulation** currently affecting interprovincial movements within the Atlantic region is a ministerial order that prevents the movement of firewood and spruce logs out of Nova Scotia due to the brown spruce longhorn beetle infestation.²¹

Technical standards, such as the dimensions and weight limits for trucks and trailers vary by province, creating challenges for companies moving vehicles and products between provinces. These may also interact with infrastructure capacity limits. For example, although New Brunswick and Quebec both permit the use of long-combination vehicles, they cannot operate on an untwinned section of Route 185 in Quebec, increasing the costs for trucks that move goods between the two provinces. A truck carrying an oversize or overweight load through Atlantic Canada will need to obtain several permits from multiple provinces.

Non-technical regulations may also impede mobility. For example, one company indicated that when moving a five-year old vehicle from one Atlantic province to another they must pay the difference in provincial taxation on the original purchase price, impeding the transfer of vehicles from low to high-tax provinces (although input tax credits and rebates may mitigate the financial impact).

Separate and different corporate registration requirements in each province impose added costs on **multi-jurisdiction firms**. Different safety and labour standards also increase head office human resource and administrative costs for firms that try to operate a standardized business model across multiple jurisdictions.

Labour mobility between provinces may be impeded by differences in standards for some occupations. For example, a construction worker from New Brunswick seeking to work on a project in Labrador may have to retake fall safety and confined space training if Newfoundland and Labrador has different safety standards and does not recognize training provided by other provinces. Provincial licensing requirements may increase labour costs and impede the use of specialized services within a firm. For example, an engineer licensed to practice in Nova Scotia would have to apply and pay for a license to work in Prince Edward Island. Professionals with specialized skills may have to seek licenses in multiple provinces to be able to serve their Atlantic clients.

²¹ There are some exemptions: <http://www.inspection.gc.ca/plants/plant-pests-invasive-species/insects/brown-spruce-longhorn-beetle/order/eng/1333085341951/1333085519708>.

Finally, businesses face **costs of regulatory compliance** even for regulations that do not affect interprovincial trade. For example, firms must apply for and pay fees for building permit and liquor licenses. Uncertainty and lack of clarity can add to the cost of compliance.

3.2 The Cost of Interprovincial Trade Barriers

Other than explicit policies intended to support local economic development, most interprovincial trade barriers arise from differences in provincial policies. Regulatory approaches could differ by province for legitimate reasons but may also reflect historic developments rather than current policy differences. In practice the regulatory differences are sometimes relatively minor suggesting that in these cases provinces have similar policy priorities. If these small regulatory differences have relatively large economic costs, then the benefits of policy independence may be outweighed by the costs. But aligning legislation and regulatory standards, IT systems and other processes may also increase costs to government in the short-term; depending on how some reforms are undertaken, there may also be revenue implications for government.

How important, therefore, are barriers to interprovincial trade and what would be the economic benefits of eliminating them? Although these are important questions, they are extremely difficult to answer. This is because there are so many actual and potential barriers that no one has been able to provide a comprehensive inventory of these barriers.²² Quantifying the economic cost of any one barrier can also be challenging. So while there are a large number of reports that discuss interprovincial trade barriers very few actually provide empirical estimates of the aggregate cost to Canada's economy.

One expert in the field recently commented on the difficulty of obtaining precise, accurate estimates of interprovincial trade barriers, suggesting that this should not be a barrier to action on known issues:

We seem to be bogged down in efforts to understand the size of the problem. We seem to think that if we can calculate a big enough percentage of GDP, then it might be worth policy-makers' attention to address this, as if we don't know that barriers increase cost to consumers and businesses, they reduce our choice, and they deter investment.²³

We seem to be bogged down in efforts to understand the size of the problem ... as if we don't know that barriers increase cost to consumers and businesses, they reduce our choice, and they deter investment.

²² The federal government has contracted EY to produce an Internal Trade Barriers Index to identify and track these barriers over time. <http://news.gc.ca/web/article-en.do?nid=914169>.

²³ MacMillan, Kathleen (2016, April 14) testimony to the Standing Senate Committee on Banking, Trade and Commerce. <http://www.parl.gc.ca/content/sen/committee/421/BANC/52493-E.HTM>.

One firm indicated the resources required to meet different provincial requirements amounted to one additional head office staff, costing \$75,000. Another firm estimated it added 0.5% to its costs.

One business estimated that delays in getting certain permits increased its costs by \$750,000.

One business estimated its loss of sales at \$2 million.

Examples of the Costs of Interprovincial and Regulatory Barriers

Atlantic businesses interviewed by APEC (See Chapter 4, Business Interviews: Research Methodology) identified a number of different ways through which the regulatory environment can adversely affect their operations. These include:

Increasing costs: Businesses cited the increased paperwork burden and the higher costs in terms of head office staff to manage differences in provincial standards and regulations. One firm indicated it amounted to one additional head office person, costing \$75,000. Another firm estimated it added 0.5% to their costs.

Other firms pointed to the costs to change IT systems and computer programs to accommodate each province's different requirements or the costs required to meet CFIA requirements for interprovincial food sales. Some businesses incurred higher costs to obtain licenses in several provinces or to retrain workers where their existing training was not recognized by another province. One firm had to hire local expertise to help navigate the regulatory standards in another province. Delays in approval to move a perishable product can result in losses while the inability to obtain produce from preferred suppliers increases input costs.

Reducing efficiency: Firms indicated that they were not able to implement a standardized business model, safety policy or training program across the Atlantic region but had to tailor their operations to each provincial market. They were not able to optimize the deployment of staff, equipment or products because of different provincial standards. For example, some vehicles could not be easily moved from one province to another.

Lowering revenues: For some firms, there was a loss of revenue and production due to regulatory barriers. One business estimated their loss of sales at \$2 million.

Impeding client service: Some businesses indicated that client service was sub-optimal because specialized staff were not able to assist clients in other provinces. The cost and time required to obtain the required occupational license in other provinces was a significant barrier in some cases.

Detering investment: Firms cited uncertainty about whether a permit application would be approved as a significant investment risk. Another firm cited uncertainty about the potential for future changes in the regulatory environment as a deterrent to new investment. One business did not form a new joint venture because of the inability to easily move their product across provincial borders.

Costing taxpayers: Firms pointed to potential reductions in government expenditure from regulatory reform by eliminating unnecessary regulation; harmonizing standards; mutual recognition of licences issued by other provinces; issuing regional permits; joint procurement; and even creating regional rather than duplicate provincial regulatory organizations (such as a regional liquor commission or regional workers' compensation board).

Source: APEC.

Most of the available estimates in the literature are from the 1980s or early 1990s with one study from 1998. Unlike the literature on international trade, there are very few empirical studies of interprovincial trade. One recent study, that provides estimates of interprovincial trade costs by province, is discussed at length below.

Estimates of the cost of interprovincial trade barriers to the Canadian economy have generally been very low (Table 3.2). Most estimates put the figure at no more than 0.25% of GDP, which would be less than \$5 billion. One oft-cited estimate for the Canadian Manufacturers Association (CMA) that put the cost at 1% of GDP was criticized by another researcher as too high due to its crude and inaccurate methodology for some estimates and its failure to net out the benefits from its estimates; adjusting for these errors puts the estimated cost at less than 0.1% of GDP.²⁴

Table 3.2 Estimates of the Cost of Trade and Regulatory Barriers in Canada

Author	Publication date	Cost (% of GDP)	Cost, 2015 (\$ billions)
a) Cost of interprovincial trade barriers			
John Whalley	1983	0.13 - 0.22	2.5-4.5
Donald MacDonald (Chair, MacDonald Commission)	1985	≤ 0.05	≤ 1
John Whalley and Irene Trela	1986	0.005	0.1
John Whalley and Irene Trela	1987	< 0.05	< 1
Todd Rutley (CMA)	1991	1.00	20
Brian Copeland	1998	0.05-0.10	1-2
Trevor Tombe and Lukas Albrecht	2015	3.3	65
b) Business regulatory compliance costs			
Daniel Seens (Statistics Canada)	2013	0.27	5
Marvin Cruz and co-authors (CFIB)	2015	1.9	37

Note: APEC was not able to access original studies published prior to 1998 and is therefore not able to independently assess the data sources or methodologies used. According to Copeland (1998), many of the studies of interprovincial trade costs either a) estimate the cost of selected trade barriers and then add them up or b) use an estimate of the implicit tax (caused by trade barriers) on interprovincial trade and then calculate the aggregate cost of the tax.

Source: APEC, Copeland (1998), Cruz et al (2015), Lee and Weir (2007), MacMillan and Grady (2007), Seens (2013) and Whalley (2008).

More recent studies have attempted to measure the cost to business of compliance with regulations in general. Statistics Canada estimated the cost of regulatory compliance for small and medium-sized enterprises (SMEs) in Canada to be \$4.8 billion in 2011.²⁵ However, the Canadian Federation of Independent Business (CFIB) estimated the

²⁴ Copeland, Brian (1998). *Interprovincial barriers to trade: An updated review of the evidence*. Vancouver: BC Ministry of Employment and Investment.

²⁵ Seens, David (2013). *SME Regulatory Compliance Cost Report – September 2013*. Ottawa: Industry Canada.

regulatory cost for businesses to be much higher at \$37 billion in 2014.²⁶ Unlike Statistics Canada, the CFIB estimates the cost for firms of all sizes and includes estimates of lost sales due to regulatory delays. The Statistics Canada data also show that the average cost of regulatory compliance (measured per employee or as a share of revenues) is larger for firms with fewer employees.

Government regulations were cited as the third largest competitive challenge facing Atlantic businesses with 27% saying they were having a large or very large harmful impact.

Concerns with red tape cut across sectors but the critical issues are often unique to each industry.

Firms reported that an increased number of staff members had been dedicated to compliance, leaving fewer resources devoted to business growth.

A lack of clarity and certainty in the regulatory process was also a cause of frustration.

Atlantic Business Leaders' Views of the Regulatory Environment

In the 2005 *Progress TOP 101 Survey*, government regulations were cited as the third largest competitive challenge behind higher energy prices and a stronger Canadian currency (pp. 132-134):

Government policies and regulations have become an increasingly important obstacle to growth. In this year's survey, 60% of firms said that regulations had at least a moderate negative impact on their business, with 27% of them saying that government regulations were having a large or very large harmful impact. This was the biggest challenge for firms in commercial services. Concerns with red tape cut across sectors from aquaculture to chemicals to insurance, but the critical issues are often unique to each industry, such as the need for faster product approval in life sciences.

In a subsequent survey in 2007, leading Atlantic businesses indicated that reducing overall red tape and regulatory compliance was their top regulatory concern with about 57% of firms citing this as a high or very high priority for governments to address (p. 116):

Firms reported that an increased number of staff members had been dedicated to compliance, leaving fewer resources devoted to business growth. Red tape slowed down new business developments and increased overall project costs.

In terms of other regulatory priorities, environmental and building permits figured highly with long approval times being a particular concern (p. 118):

A lack of clarity and certainty in the regulatory process was also a cause of frustration. Some companies pointed to concerns over various aspects of labour regulations, including employment standards, minimum wages, and maternity/paternity leave. A number of firms also identified workers' compensation as needing reform.

Source: Chaundy, David (2005). Performance, challenges and priorities: Pressure at the top. *Progress*, September. Halifax: Progress Media, pp. 127-146 and Chaundy, David (2007). Corporate leaders identify business climate priorities. *Progress*, September. Halifax: Progress Media, p. 112-126.

These generally small estimates of the cost of regulations and trade barriers seem inconsistent with repeated business sector complaints about the regulatory environment in Canada.²⁷ In Atlantic Canada as well, business leaders have often expressed concerns

²⁶ Cruz, Marvin; Gormanns, Nina; Jones, Laura and Wong, Queenie (2015). *Canada's Red Tape Report 2015*. Toronto: Canadian Federation of Independent Business. In a separate study, the authors estimate the cost to individuals of regulatory compliance (for example, to obtain or renew passport and drivers licenses renewal) at \$10 billion. Cruz, Marvin; Gormanns, Nina and Wong, Queenie (2014). *Impact of Regulation on Canadian Individuals*. Toronto: Canadian Federation of Independent Business.

²⁷ See, for example, Canadian Chamber of Commerce (2004). *Obstacles to Free Trade in Canada: A Study on Internal Trade Barriers*. Montreal: Canadian Chamber of Commerce; COMPAS Inc. (2004). *Inter-Provincial Trade Barriers: Seriously Damaging to the Economy and Standard of Living and Almost as Harmful as Canada-U.S. Trade Barriers*. Toronto: COMPAS Inc.; Cruz *et al* (2015); and Gallant (2014).

about the negative effect of the regulatory environment on their competitiveness (see Box: Atlantic Business Leaders' Views of the Regulatory Environment and Box: Foreign Firms' Views of Atlantic Canada's Regulatory Environment).

Foreign Firms' Views of Atlantic Canada's Regulatory Environment

Foreign firms in Atlantic Canada are important contributors to region's economy, accounting for about 10% of business sector GDP and 33% of international exports in 2005.

When asked in 2006 to compare the business climate in Atlantic Canada with other jurisdictions in which they have similar operations (whether other provinces or countries), over 60% of the foreign firms indicated that the regulatory environment in Atlantic Canada was comparable to elsewhere. However, using the balance of respondents as an indicator, i.e., the percentage of foreign firms rating Atlantic Canada as worse than average (29%) less the percentage of firms rating the region as better than average (10%), the region's overall regulatory environment was viewed as less conducive to business competitiveness than elsewhere.

The time and cost of the regulatory process in the offshore energy sector, along with related concerns about regulatory overlap and complexity, were raised as issues (p. 26):

67% of foreign firms in the offshore oil and gas industry and 54% in the offshore energy cluster state that the region was worse than average in terms of its regulatory environment.

Foreign firms outside of the offshore sector also highlighted concerns (pp. 26-27):

One manufacturer referred to out-of-date labour regulations that limit its ability to adjust to changing global realities. Another manufacturer highlighted restrictive transportation regulations that impede the efficiency of moving manufactured goods.

Although the survey was not designed to examine interprovincial barriers, the additional costs associated with different regulations among the Atlantic provinces were noted by respondents. Foreign firms advocated for harmonization with other jurisdictions, better regulation and less red tape (p. 29).

Source: Chaundy, David (2011). *Atlantic Canada's Changing Competitiveness for International Investment*. Halifax: APEC.

67% of foreign firms in the offshore oil and gas industry and 54% in the offshore energy cluster stated that the Atlantic region was worse than average in terms of its regulatory environment.

Recent empirical work by Trevor Tombe at the University of Calgary may provide a better reconciliation with the views of the business community than the historical estimates reviewed above.²⁸ Tombe and his colleagues use a multi-region multi-industry model to estimate the costs of interprovincial trade barriers in Canada and the benefits of reducing them, nationally and by province and industry (see Box: Estimating Trade Gains by Province, for a more detailed discussion of the methodology and potential limitations).

²⁸ Albrecht, Lukas and Tombe, Trevor (2015). Internal Trade, Productivity, and Interconnected Industries: A Quantitative Analysis. http://econ.ucalgary.ca/sites/econ.ucalgary.ca.manageprofile/files/unitis/publications/1-6131374/albrecht_tombe_2015_final.pdf. This paper was published in the *Canadian Journal of Economics*, vol 49, no. 1, February 2016.

Estimating Trade Gains by Province: Empirical Methodology

The estimates by Trevor Tombe reported in the text use models of international trade that have been developed over the last 15 years and apply them to interprovincial trade in Canada using Statistics Canada's input-output (supply-use) data. Commodity data is aggregated into industries, combining industries where necessary to ensure positive production in each province and each sector.

The model infers trade costs by comparing actual trade flows with what would be expected in a world without trade costs but with identical consumer preferences. The impacts on GDP are calculated using international estimates of trade elasticities (which measure the responsive of trade volumes to changes in trade costs) within the context of a multi-region general equilibrium model with multiple interconnected sectors.

Key assumptions

The model assumes perfect competition (lots of small producers) and the gains from trade arise as less productive firms shut down and more productive firms expand. If there are no such selection effects because there is only one producer in a sector, as is the case for Michelin tires in Nova Scotia and the Irving refinery in New Brunswick, then the overall trade gains will be smaller. The results for small provinces which don't produce every commodity could be sensitive to the level of industry aggregation used, but the size and direction of such impacts can only be known when more disaggregated data become available. If Canadian data on trade elasticities were available, it would also lead to more refined results; higher trade elasticities, for example, would imply lower trade costs. While the reported results are specific to the trade model used, they should be consistent with a wide range of quantitative international trade models. Tombe shows that the results are not sensitive to assumptions about labour mobility. If residents prefer to buy from their own province, then the estimated trade costs will be lower, although this factor may not have a sizeable impact. Finally, the reported estimates do not account for innovation or changes in investment, but should be viewed as the maximum long-run static gains assuming firms and workers fully adjust to changes in costs and wages (which could take decades if older displaced workers do not move to expanding firms).

Key features

Two key features of these new trade models stand out. First, the **input-output linkages** between sectors multiply (double) the gains from trade, i.e., lower trade costs for one input reduces costs for all sectors that use that input. Second, these models assume that productivity varies by firm: the **selection effects**, as higher productivity firms expand and lower productivity firms shut down, are a key driver of trade gains.

Trade costs are higher in small and poor provinces implying that they benefit disproportionately from trade liberalization although other research finds potential aggregation bias in such estimates. In the model with fiscal transfers, the higher wages from trade liberalization lead to lower transfers, moderating the net gains in poor regions.

Other results

The text discussion focuses on the gains from eliminating asymmetric trade barriers. Eliminating all internal trade costs that are not related to distance increases Canadian GDP by 6.8% (and by 24-35% in the Atlantic provinces). Also, a 10% reduction in international trade costs increases Canadian GDP by 1.8% (and by 1.8% - 2.5% in the Atlantic provinces), twice as much as the equivalent reduction in internal trade costs.

Source: Albrecht and Tombe (2015) and Tombe and Winter (2015).

Tombe estimates that eliminating all provincial trade barriers within Canada (i.e., barriers that make it more difficult to trade in one direction than another) could increase national GDP by 3.3% (\$65 billion).²⁹

There are several potential reasons why these estimates are higher than the historical estimates reviewed above. Tombe applies new analytical approaches to Canadian interprovincial trade data, using trade models that were not available 20 years ago. The Canadian economy has also changed over the last few decades, including the growth of global value chains (as noted in Chapter 2), which may have changed how regulatory barriers affect the overall economy.³⁰ Indeed, input-output linkages are a key driver in Tombe's approach: higher costs in one sector ripple throughout the economy, explaining about two-thirds of the GDP effects. Another key source of gains arise from differences in productivity between firms: reducing trade barriers allows firms with higher productivity to expand while firms with lower productivity will shrink or shut down.

It should also be noted that the trade costs in Tombe's estimates are calculated as a residual and may therefore capture both policy and non-policy factors. Other researchers have pointed to aggregation issues that may exaggerate the estimated size of provincial and international border effects, especially for smaller jurisdictions.³¹ Future empirical research, including using more refined Canadian data for some model parameters, will help to affirm or modify these initial estimates.

In addition to national estimates, Tombe calculates the trade costs by province. These costs are higher in the Atlantic provinces than nationally (Figure 3.1). As a result, the gains in GDP from eliminating all trade barriers in Canada are proportionately larger in the Atlantic region (Table 3.3). For Atlantic Canada the gains amount to 7.6% of GDP (\$8.5 billion). If personal disposable (i.e., after tax) income increased by the same proportion, it would mean an increase of about \$2,000 for each person in Atlantic Canada.

Eliminating all trade barriers in Canada could increase Atlantic Canada's GDP by 7.6% or \$8.5 billion

²⁹ Unless noted otherwise, the references in this report to Tombe's estimates of interprovincial trade costs are for his estimates of *asymmetric* costs. Tombe uses two measures to estimate the trade costs that are most under the control of policy makers. The first is a measure of *asymmetric* costs, where it is more costly to trade in one direction than another. This could be due to licensing requirements which make it more difficult for Nova Scotia firms to do business in Ontario or Quebec than it is for firms from those provinces to do business in Nova Scotia. However, it could also reflect non-policy barriers such as a pipeline that flows in one direction, which makes it cheaper to buy capacity to send it in that direction than the other. Tombe's second measure is to adjust the standard estimate of the *symmetric* trade costs by stripping out the effect of distance to create an estimate of *non-distance* costs (see Box: Estimating Trade Gains by Province: Empirical Methodology). These non-distance costs could also reflect a combination of policy factors (such as a need for a business to register in both provinces where the overall cost of registration is the same in each province) and non-policy factors (such as consumer preferences for products and services from their own province). Tombe also provides estimates for the economic gain from a 10% reduction in all trade costs: these estimates are derived from the estimates of *symmetric* trade costs.

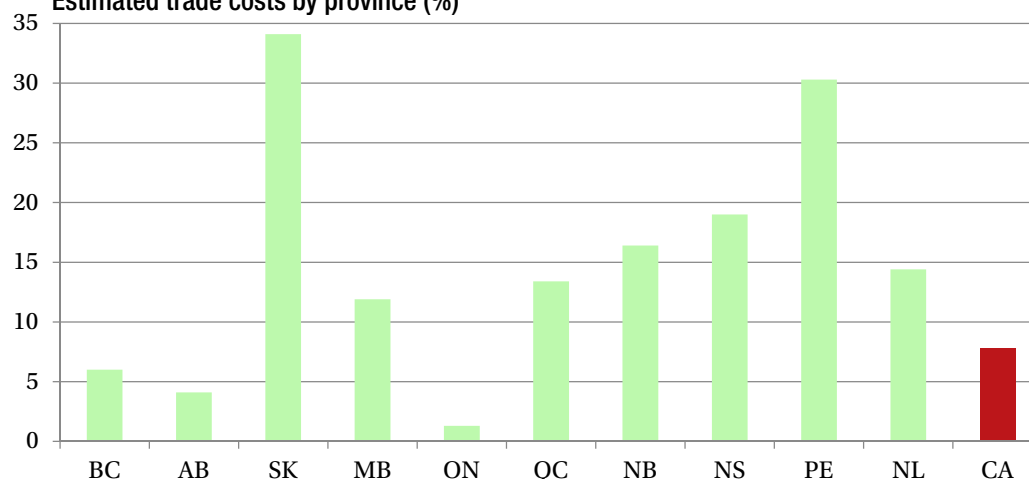
³⁰ The increased use of online registration and permit applications, as well as various initiatives to reduce trade barriers and the overall regulatory burden (see Appendix B and C) should have had some effect in reducing the cost of regulatory barriers.

³¹ Coughlin, Cletus and Novy, Dennis (2016). Estimating Border Effects: The Impact of Spatial Aggregation. Federal Reserve Bank of St. Louis *Working Paper Series*, 2016-006A. <http://research.stlouisfed.org/wp/2016/2016-006.pdf> and <http://voxeu.org/article/estimating-border-effects-international-trade-user-beware>.

It should be emphasized that these GDP gains arise from eliminating all trade barriers across Canada, policy-related or otherwise. As already discussed, the trade gains in this approach arise from the expansion of more productive firms and the closure of the least productive firms. As a result, there will be adjustment costs. These estimates therefore represent the long run static gains, assuming that all workers and firms are able to fully adjust to the change in their relative costs. And they do not include any resource costs that might be incurred by governments in eliminating policy-related trade barriers.

Figure 3.1 Interprovincial Trade Costs Are Relatively High in Atlantic Canada

Estimated trade costs by province (%)



Source: Albrecht and Tombe (2015)

Table 3.3 Atlantic Canada Benefits Disproportionately from Trade Liberalization Within Canada

Estimated long-run static gains in GDP under different trade liberalization scenarios (%)

Trade liberalization scenario	NL	PE	NS	NB	Maritimes ¹	ATL	CA
Elimination of all trade costs ² in Canada	5.0	18.6	7.9	8.0	8.7	7.6	3.3
Elimination of all trade costs ² in Canada after allowing for changes in net fiscal transfers ³	2.6	8.5	3.6	4.3	4.2	3.8	3.3
10% reduction in trade costs in Canada	1.8	2.7	1.8	1.8	1.9	1.8	0.9
10% reduction in trade costs in Maritimes ¹ only ³	0.0	3.0	1.3	1.1	1.4	1.0	0.1
10% reduction in trade costs in Maritimes ¹ only after allowing for changes in net fiscal transfers ³	0.0	2.1	0.8	0.7	0.8	0.8	0.0

Note: 1. The three Maritime provinces are New Brunswick, Nova Scotia and Prince Edward Island. The estimates for a reduction in regional trade costs were only estimated for these three provinces.

2. These trade costs refer to *asymmetric* trade costs which imply it is more expensive to ship goods in one direction than the reverse. The other estimates in this table for a 10% reduction in trade costs refer to *symmetric* trade costs, which do not depend upon the direction of trade. See footnote on page 27 for more details.

3. These estimates are from Tombe and Winter (2015) which has not yet been published in a peer-reviewed academic journal.

Source: Albrecht and Tombe (2015), Tombe and Winter (2015) and author's calculations

In addition, these estimates do not allow for any changes in net fiscal transfers that result from changes in income. In a separate (but as yet unpublished) paper, Tombe provides estimates of the trade gains after allowing for changes in net transfers.³² In this model, the relatively large increases in GDP and wages in Atlantic Canada are partially offset by reductions in net fiscal transfers to the region (for example, due to higher federal income tax payments, lower Employment Insurance benefits or reduced equalization payments). In this model, the net gains in Atlantic Canada from removing all trade costs across Canada amount to 3.8% of GDP (\$4 billion), or an increase in personal disposable income of about \$1,000 per person.

What if only the three Maritime provinces reduced their trade costs? In their (as yet unpublished) paper, the researchers calculate that a 10% reduction in all trade costs among the three Maritime provinces could increase their GDP by about 1.4% (\$1 billion); this is noticeably lower than the 1.9% gain in their GDP from reducing trade costs throughout Canada by 10%.³³ After allowing for changes in net fiscal transfers, the gain in Maritime GDP from a 10% reduction in Maritime trade costs would be 0.8% (\$0.6 billion).³⁴

A 10% reduction in all trade costs among the three Maritime provinces could increase their GDP by about 1.4% or \$1 billion.

3.3 Interprovincial Trade Agreements

Canada is a federation and the division of powers between federal and provincial governments under its Constitution is a root cause of many of the interprovincial barriers that have been identified and discussed in this report.

Under the Constitution, the federal government has exclusive jurisdiction in areas such as unemployment insurance and old age pensions; postal service; navigation, shipping and ferries between two provinces; banking; patents and copyrights. It is also responsible for shipping lines, railways and telecommunications that connect two or more provinces.

It is also important to note that the federal government has jurisdiction over any matter not specifically assigned to the control of the provinces, including the regulation of “trade and commerce.”³⁵ The governments share joint jurisdiction in areas of agriculture and immigration.

³² Tombe, Trevor and Winter, Jennifer (2015). Fiscal Integration with Internal Trade: Quantifying the Effects of Equalizing Transfers. <http://econ.ucalgary.ca/sites/econ.ucalgary.ca.manageprofile/files/unitis/publications/1-4681118/tombewinter2016.pdf>.

³³ These estimates are derived from a reduction in symmetric trade costs.

³⁴ In the model with fiscal transfers, all provinces benefit from regional trade agreements, but a 10% reduction in Maritime trade costs only results in gains of about 0.01% of GDP in other provinces.

³⁵ *Constitution Act, 1867*, Section 91 and 91(2) <http://laws-lois.justice.gc.ca/eng/const/FullText.html>.

The provinces have exclusive jurisdiction in areas such as non-renewable natural resources, forestry resources and electrical energy generation; the incorporation of companies and licenses for raising revenue for provincial purposes; shops, drinking and food establishments and education and all matters that are of a local nature. Their powers over “property and civil rights” have been interpreted by the courts as covering a very wide field. As a result, all labour legislation (maximum hours, minimum wages, safety, workers’ compensation, industrial relations) comes under provincial law, except for certain industries.³⁶

Over time, provinces have developed and instituted their own laws, standards and regulations within their areas of jurisdiction, including corporate registrations, food and liquor licenses, labour standards, and standards for education and training. However, these differences give rise to many of the additional costs faced by firms that operate in multiple provinces. Even in industries that are federally regulated such as banking and telecommunications firms are still subject to different provincial tax rates and labour standards.

As a result of these “barriers” to interprovincial trade, there have been numerous attempts to liberalize internal trade in Canada including pan-Canadian, regional and bilateral agreements (Table 3.4; for further details of these agreements, along with a discussion of various initiatives among the Atlantic provinces, see Appendix B). In addition, governments have tried to reduce the overall regulatory burden through red tape reduction initiatives (see Appendix C for a summary).

Despite these various attempts to reduce interprovincial trade barriers and the regulatory burden in Canada and the Atlantic region, there is still work to be done. Regulatory initiatives are not always sustained, often changing focus and approach with a new government.³⁷ Although some initiatives have made attempts at measurement and public reporting, few have measured the full economic impact of regulation.

Some trade agreements among provinces lack sufficient power to address regulatory barriers in terms of their scope and strength. For example, they may only include certain areas (such as in a positive list approach) or there may be significant exclusions (even within a negative list approach). The dispute resolution process may lack sufficient teeth to be effective. And sometimes commitments made under these agreements can take years to be fully implemented.

³⁶ Forsey, Eugene A. (2012). *How Canadians Govern Themselves*. Ottawa: Library of Parliament. p. 21.

³⁷ For a critical review of recent regulatory initiatives in Nova Scotia see Broten, Laurel (2014). *Charting a Path for Growth: Nova Scotia Tax and Regulatory Review*. Halifax: Government of Nova Scotia.

Table 3.4 Major Canadian Internal Trade Agreements

Name	Parties	Date	Key Features
Agreement on Internal Trade	All provinces & territories except Nunavut (which has observer status)	July 1 st 1995	<ul style="list-style-type: none"> • Positive list approach (except negative list for labour mobility); targets eleven sectors. • Governments and persons may lodge complaints. • Panels empowered to adjudicate and levy penalties up to \$5 million.
New West Partnership Trade Agreement	BC, AB, SK	July 1 st 2010	<ul style="list-style-type: none"> • Negative list approach, includes all sectors unless exempted (e.g., energy, supply-management). • Governments and persons may lodge complaints. • Panels empowered to adjudicate and levy penalties up to \$5 million.
Ontario-Quebec Trade and Co-Operation Agreement	ON, QC	October 1 st 2009	<ul style="list-style-type: none"> • Positive list approach, targets six specific sectors (e.g., labour, financial services and transportation). • Governments may lodge complaints. • Panels empowered to adjudicate complaints and levy penalties up to \$10 million.

Note: For further discussion of these agreements see Appendix B. The New West Partnership and Trade Agreement superseded the Trade, Investment and Labour Mobility Agreement (TILMA), between British Columbia and Alberta that was implemented in 2007.

Source: APEC.

Canada's Premiers have made commitments to negotiate a comprehensive renewal of the Agreement on Internal Trade (see Appendix B).³⁸ A recent Senate committee report, indicated that a revised agreement must include:

a negative list approach, mutual recognition, regulatory harmonization, an effective dispute-resolution mechanism, improved consideration of trade in services and a permanent federal co-chair for the Committee on Internal Trade.³⁹

Meanwhile, interprovincial trade barriers are back before the courts. In 2012, a New Brunswick resident, Gérard Comeau, was charged under Section 134(b) of the *Liquor Control Act* of New Brunswick for purchasing alcohol in Quebec and bringing it back into New Brunswick. The Act prohibits an individual from possessing alcohol not purchased from the NB Liquor Corporation. In an April 2016 decision, a New Brunswick judge ruled that Section 134(b) of the *Liquor Control Act* constitutes a trade barrier which violates section 121 of the *Constitution Act, 1867*, which states that "All Articles of the Growth, Produce, or Manufacture of any one of the Provinces shall, from and after the Union, be admitted free into each of the other Provinces."⁴⁰ In arriving at this decision,

³⁸ Postscript: On July 22, 2016, subsequent to the completion of this report, Canada's Premiers announced an agreement in principle on a new Canadian Free Trade Agreement to replace the Agreement on Internal Trade. The agreement will include broad coverage using a negative list approach, reduced regulatory burden and enhanced procurement opportunities.

http://www.canadaspremiers.ca/phocadownload/newsroom_2016/internal_trade_july22.pdf

³⁹ The Standing Senate Committee on Banking, Trade and Commerce (2016). *Tear Down These Walls: Dismantling Canada's Internal Trade Barriers*. Ottawa: Senate.

[http://www.parl.gc.ca/content/sen/committee/421/BANC/Reports/2016-06-13_BANC_FifthReport_SS-2_tradebarriers\(FINAL\)_E.pdf](http://www.parl.gc.ca/content/sen/committee/421/BANC/Reports/2016-06-13_BANC_FifthReport_SS-2_tradebarriers(FINAL)_E.pdf)

⁴⁰ *R v Comeau*, 2016 NBPC 3 (CanLII), <http://www.canlii.org/en/nb/nbpc/doc/2016/2016nbpc3/2016nbpc3.html>.

the judge determined that, on the basis of new evidence, a 1921 Supreme Court of Canada decision relating to section 121, which influenced all subsequent judicial decisions on section 121, was wrongly decided. This decision may therefore have significant implications for future discussions and judicial decisions regarding interprovincial trade barriers. In May, the New Brunswick government announced it is seeking leave to appeal the Comeau ruling directly to the New Brunswick Court of Appeal.⁴¹

⁴¹ <http://www.cbc.ca/news/canada/new-brunswick/conservatives-comeau-supreme-court-1.3607187>.

Chapter 4

Rationale, Challenges and Guidelines for Atlantic Regulatory Reform

Chapter Summary

- **Atlantic Canada is a small market that is further fragmented by provincial borders and differing standards and regulations, placing its firms at a competitive disadvantage relative to firms in larger provinces. Reducing these barriers and reforming the regulatory environment has the potential to boost the region's output, which is especially important given the region's economic, demographic and fiscal outlook.**
- **Regulatory reform is a challenging undertaking due to the multiple regulations affecting Atlantic businesses and the fact that there are multiple regulators involved (including federal, provincial and municipal governments as well as non-government regulators). Different options for regulatory reform need to be evaluated; while some may benefit all stakeholders, others may have uneven impacts. Quantifying the economic gains from specific reforms can be difficult, but is especially important when there are government revenue or expenditure implications.**
- **In terms of improving the regulatory environment, Atlantic businesses want a level-playing field, consistency among jurisdictions and consistent application of regulations. Certainty and simplicity are also important to reducing business risk.**
- **Atlantic regulatory reform should prioritize issues with the largest economic impact, including areas with broad economic reach and industries with the largest spillovers to other sectors. An effective and comprehensive regional trade and cooperation agreement could help advance regulatory alignment within the region. As the regulatory issues facing Atlantic firms extend beyond regional boundaries, governments should also pursue regulatory reform and alignment nationally and internationally.**

This chapter summarizes the rationale for regulatory reform in Atlantic Canada, discusses some of the challenges and complexities in undertaking such reforms, and articulates some broad guidelines for regulatory reform to reduce the burden on Atlantic firms. This analysis is based upon the data on interprovincial trade flows presented in Chapter 2, empirical estimates of the cost of interprovincial trade barriers discussed in Chapter 3 and interviews with Atlantic businesses across a wide range of industries.

4.1 The Rationale for Regulatory Reform in Atlantic Canada

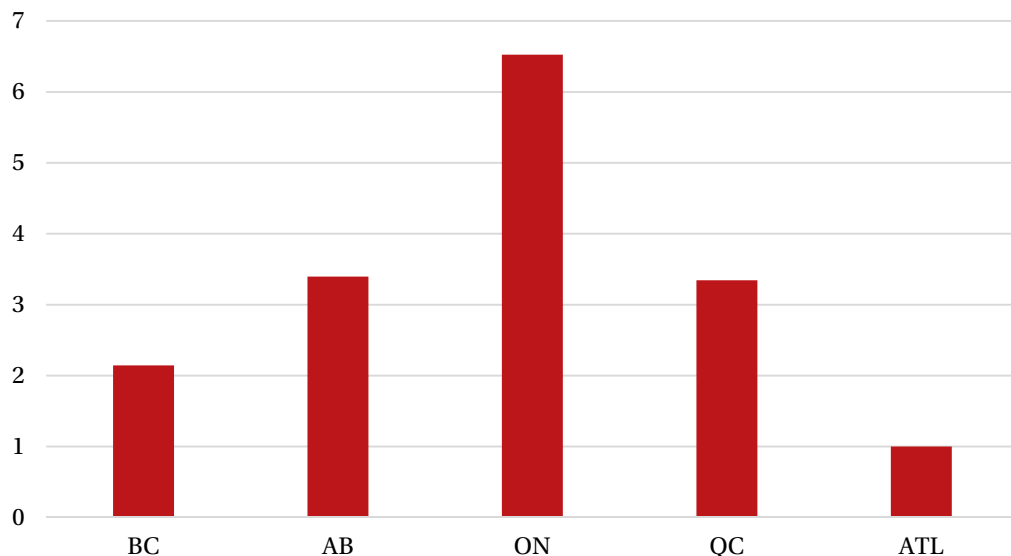
Businesses in Atlantic Canada have access to much smaller provincial markets than those in other provinces, reducing their ability to benefit from economies of scale. The Atlantic provinces have the four smallest provincial populations in Canada. In terms of output, the largest Atlantic province – Nova Scotia – is still only 61% of the size of the next largest province - Manitoba. Even if Atlantic Canada was one unified market, businesses in Ontario have access to a provincial market that is more than six times larger than the Atlantic region (Figure 4.1). The combined size of the three parties to the New West Trade Partnership Agreement (NWTPA) is also six times larger than Atlantic Canada.

Businesses in Ontario have access to a provincial market that is more than six times larger than the Atlantic region and with only set of provincial regulations and standards to comply with.

Compounding the tiny Atlantic market is the fact that this market is further fragmented by differing provincial standards and other barriers to trade, placing Atlantic businesses at a competitive disadvantage. A business in Ontario can access a market six times larger within one set of provincial regulations; to reach all of Atlantic Canada an Atlantic firm must comply with four sets of provincial standards and regulations to tap into a market that is 15% of the size of Ontario. For the size of its combined market, Atlantic Canada is clearly over regulated.

Figure 4.1 Atlantic Firms Face a Much Smaller Market than Businesses in Other Provinces

Size of select provincial markets (GDP) relative to Atlantic Canada, 2014 (ATL=1)



Source: Statistics Canada CANSIM table 384-0038.

Regulatory reform within Atlantic Canada therefore needs to be prioritized to reduce the barriers that impede trade flows and raise the cost for firms that operate across provincial boundaries.

Interprovincial trade is particularly important to Atlantic Canada's economy, as noted in Chapter 2, accounting for 59% of GDP, compared with 39% nationally. These trade flows support about 1 in 6 jobs but are also vital inputs into international exports. Barriers to these flows can therefore impede the region's competitiveness, leading to lost output and employment.

Atlantic (and Canadian) businesses have consistently highlighted the challenges created by poorly designed or implemented regulations and differences in standards among jurisdictions. Some of the firms interviewed for this research provided specific examples of the costs to their business (see Chapter 3).⁴² By reducing regulatory compliance costs, Atlantic firms will face lower costs and have more resources to invest in developing new products and markets.⁴³ Recent empirical research suggests the long run gains in Atlantic Canada's GDP from removing all barriers to trade among Canadian provinces, could be as high as \$8.5 billion (see Chapter 3 for a detailed discussion of these estimates). Reducing trade costs among the three Maritime provinces by 10% is also estimated to boost their GDP by a combined 1.4%.

Improving Atlantic Canada's competitiveness and economic potential is particularly important given the outlook for growth in the region. Atlantic Canada's growth performance has been weak in recent years with APEC forecasting slower growth over the medium term due to population aging.⁴⁴ These economic and demographic trends are also creating fiscal pressures which are already apparent and will create longer-term challenges.⁴⁵ As several business noted, regulatory reform may lead to lower costs for provincial governments, while tax revenues should increase with gains in output.

⁴² None of the firms interviewed for this study were start-ups, so no conclusions can be drawn regarding the general ease or difficulty of starting a new business, although it is clear that firms in several sectors have to come to grips with multiple regulatory requirements (i.e., regulations other than those that apply to firms in all industries such as labour standards).

⁴³ Chaundy, David (2005), p. 146.

⁴⁴ APEC (2015). Atlantic Canada Economic Outlook 2016: (S)Lower for Longer. *Atlantic Report*, Fall. Halifax: APEC, p. 1-7.

⁴⁵ Drummond, Don and Capeluck, Evan (2015). *Long-term Fiscal and Economic Projections for Canada and the Provinces and Territories, 2014-2038*. Ottawa: Centre for Study of Living Standards. <http://www.csls.ca/reports/csls2015-08.pdf>.

4.2 The Challenge for Regulatory Reform in Atlantic Canada

While there is a strong rationale for regulatory reform, it is also clear, based upon interviews with Atlantic businesses, that regulatory reform involves multiple dimensions that can increase the complexity of reform.

Businesses face multiple regulatory requirements. While some affect all firms, many are industry specific. Reviewing and reforming all these regulations would be a huge undertaking.

Atlantic businesses are subject to requirements from other businesses⁴⁶ as well as all levels of government and non-government bodies. Improving the regulatory environment in Atlantic Canada therefore requires a commitment to reform from multiple regulators, not just the four provincial governments.

For example, Atlantic businesses raised issues about inconsistent application and the complexity of regulations within some federal departments. Municipal regulations and standards can also vary widely across the region and even with provinces. For example, in New Brunswick, municipalities are responsible for regulations regarding Sunday shopping and bilingual signage, leading to differences across the province. Despite being the region's largest city, Halifax was viewed as a particularly difficult place to do business from a developer's point of view, much more so than in Moncton or St. John's.

Governments are not the only regulators, although the regulatory authority of other bodies may derive from provincial legislation. Regulatory bodies can include crown corporations or other government agencies (such as the Nova Scotia Liquor Corporation); non-government agencies (such as the Resource Recovery Fund Board in Nova Scotia); professional or occupational regulatory bodies (such as the Nova Scotia's Barrister's Society); and industry self-regulating organizations (such as the Nova Scotia Construction Safety Organization). This feature of the regulatory environment can make Atlantic regulatory reform more challenging as organizations outside the direct control of provincial governments need to be engaged in the process.

Quantifying the benefits of regulatory reform can be particularly challenging, as already noted in Chapter 3, which may make it harder to justify the need for change. While some reforms may reduce business compliance costs, which could be estimated with some degree of precision, other reforms may have uncertain competitive effects. In some cases,

⁴⁶ Firms may need to obtain industry certifications or demonstrate compliance with firm-specific supply chain requirements. See Chaundy (2007) for a discussion.

as with differences in spring weight restrictions, the costs of harmonization appear to outweigh the benefits;⁴⁷ in these cases, regulatory reform should not proceed.

Some reforms may also have financial implications for governments which could make such changes harder to commit to in the short-term given the immediate fiscal situation facing the four Atlantic provinces, although reforms may be easier where the long-term benefits can be quantified. For example, governments may face the potential loss of revenue from permits or registrations or the cost of investing in new IT systems and staff training to ensure systems are compatible among multiple provinces. The financial outcomes will also depend upon whether reforms are instituted in a revenue neutral manner and the nature of any cost or revenue-sharing mechanisms instituted among the Atlantic provinces.

There are also different options for regulatory reform that need to be assessed (see Box: Options to Align Atlantic Regulations). While some reforms may have clear benefits for all stakeholders (such as simplifying regulations that are unnecessarily complex, standardizing language and processes, or removing outdated regulations), others may have uneven impacts. For example, increasing access to public procurement may reduce procurement costs, but greater competition may reduce revenues for some local firms. Harmonizing labour standards (such as overtime rates) across provinces could increase costs for businesses in some provinces while reducing them in others.

Regulatory reform that reduces direct barriers to trade or that reduce differences among jurisdictions will increase competitive pressures in Atlantic Canada.⁴⁸ In general, increased competition is beneficial for increasing productivity, stimulating innovation and reducing costs and consumer prices.⁴⁹ However, lower productivity firms are likely to lose business if they cannot improve their competitiveness while consistent enforcement of regulatory standards may also make it harder for some firms to continue to operate.

Some small and medium-size firms will benefit from Atlantic harmonization as the reduced costs and risks of interprovincial trade encourages them to expand their markets. But some firms may lack sufficient scale to compete for large public contracts. Increased competitive pressure and lower interprovincial barriers may encourage consolidation in some industries as firms seek greater economies of scale to strengthen their capacity to compete in larger markets.⁵⁰

⁴⁷ See Chapter 5.1 for a discussion of this issue.

⁴⁸ Some industries are highly regulated and this can pose a barrier to entry for new firms to the industry.

⁴⁹ These competitive and firm selection effects are a critical source of the estimated economic gains from regulatory reform discussed in Chapter 3.

⁵⁰ APEC (2015), p. 3.

Options to Align Atlantic Regulations

There are a number of different options to reduce the differences in regulatory standards among provinces. They include the following:

Mutual recognition: This is potentially the easiest option, with each province agreeing to recognize permits or licenses granted in another province. However, mutual recognition does not work for some issues, such as labour standards where minimum wages, overtime rates, vacations and severance may differ. It also does not address unclear or poorly designed standards and may have fiscal implications.

Harmonization: The provinces agree on common legislation, standards, regulations or processes, but keep their own regulatory bodies. If the provinces agree to adopt the standard already used in one province, this reform should be relatively straightforward. If the provinces need to negotiate to come to an agreement on a common standard, this could take more work, depending upon the issue and provincial sensitivities around it.

Regional permits: This takes harmonization one step further where provinces agree on and issue an Atlantic-wide permit. In this case, each province could issue the permit for applications from their own province, or it could be centralized in one province with a revenue-sharing formula.

Regional regulatory bodies: In this scenario, the provinces could establish an Atlantic liquor corporation or workers compensation board, for example, to oversee regional activity on a consistent basis in all four Atlantic provinces (as is done with the Atlantic Lottery Corporation), resulting in the potential for cost savings due to lower provincial administrative costs and other efficiency savings. Some firms interviewed for this research indicated that, from a practical perspective, creating greater consistency and harmonization of provincial policies is a more important priority in the short term than trying to create a regional body.

4.3 Atlantic Business Recommendations to Improve the Regulatory Environment

Regulatory issues affect firms in different ways and Atlantic business leaders have identified numerous opportunities for reform in specific areas and industries (see Chapter 5 for details). But these issues, and the broader discussions with Atlantic firms on the topic of regulation, reveal that business leaders share a common perspective on how the overall regulatory environment could be improved to reduce the costs and risks to business (see Box: Improving the Regulatory Environment: Advice from Atlantic Businesses).

Improving the Regulatory Environment: Advice from Atlantic Businesses

There are a number of different ways to reform the regulatory regime, some of which can be used in combination with others. The following recommendations from Atlantic business leaders are consistent with the broad vision for regulation articulated by the three Maritime Premiers in their Charter of Governing Principles for Regulation (see Appendix B).

Eliminate: Some regulations could be eliminated because they are no longer relevant.

Simplify: The number of requirements or other forms of complexity could be reduced, easing the compliance cost without compromising the goals of the regulation.

Reduce the reporting/renewal frequency: Some permits could be issued or renewed less frequently, say every three or five years instead of annually.

Standardize: The application process for similar permits could be standardized.

Eliminate duplication: Applicants would only have to provide certain information once, rather than having to provide multiple times to multiple departments. One permit could be issued for multiple locations.

Coordinate: Where several departments are involved in regulating a business or business activity, regulators can collaborate to ensure a timely and coordinated approval process.

Improve clarity: Regulators can provide greater clarity in regard to the intent and application of regulations, so firms know what is required.

Increase certainty: Regulators can ensure that the approval process provides greater certainty so applicants can know in advance if they have (or are likely to have) met the criteria for approval. They can also provide forward guidance so that firms know if or how regulations may evolve in the future. For example, Nova Scotia's minimum wage is tied to increases in the consumer price index, enabling business to forecast future rate increases and plan accordingly with greater certainty; in Prince Edward Island, by contrast, the rate setting process is more opaque.

Provide greater stability: Some firms feel that the regulatory environment within which they operate is always changing, making it hard to keep up. While some regulations may require urgent change, others can be updated at pre-specified intervals.

Harmonize regulations across jurisdictions.

Improve consistency of application: Regulators can work with inspectors to ensure consistent application of regulations. Businesses complain that different inspectors interpret or apply regulations in different ways or to different degrees making it hard for a firm to know what the standard really is. Some businesses feel that some firms are not held to the same standard.

Commit to service standards and reduce approval times: Regulators can provide or guarantee that applications will be processed within a specified amount of time. In some cases, approval times are viewed as too long and should be shortened.

Improve regulatory support: Regulators can provide better access to firms seeking clarification of regulations or updates on applications. For larger clients, regulators could appoint a client manager to oversee and manage all interactions between the business and the regulator.

Strengthen the appeals process: Regulators can provide or improve options for appeal of certain decisions, or create a regulatory ombudsman.

Source: APEC, derived from business interviews.

Firms are not requesting that regulations be eliminated (except for cases where the regulations are outdated or redundant), but that the application of the regulations minimize the cost to business, and ultimately consumers. The business interviews therefore support the emphasis the Office has placed on pursuing both regulatory alignment among provinces in the region and regulatory excellence and service effectiveness in general.

Four themes or priorities should be emphasized in particular.

First, there was a strong desire for a **level-playing field**. Firms don't want other firms (potentially in other jurisdictions) to have access to subsidies, thus providing them with an unfair competitive advantage.⁵¹ Businesses want all suppliers to have equal access to procurement contracts. Firms want equal treatment for small and large businesses. Some smaller firms felt that some federal agencies are much harder on small firms. Some larger firms felt that small firms are not required to uphold the same regulatory standards (through lax enforcement) allowing a smaller firm to work in ways that they cannot and would not want to as they contravene the regulations. If preferences are provided for small volume producers, then all producers should benefit from the same preference on the first part of their production.

Second, there was a strong preference for **consistency among jurisdictions**, particularly among the Atlantic provinces but also across Canada and within provinces. For example, different municipalities within a province may have different regulations and requirements.

Other Opportunities for Atlantic Cooperation

Beyond their explicit identification of barriers to interprovincial trade, Atlantic business leaders pointed to other examples where the provinces could collaborate. These include joint (regional rather than provincial) marketing on industry missions; harmonization of provincial payroll rebates (with standardized applications, but provincial government retaining their own discretion on whether to award a rebate); and standardized summer and other student programs (so it is easier for multi-jurisdiction firms to apply for).

Third, there was a clear desire for **consistent enforcement**. Respondents want all firms to be treated equally, but they also want consistent processes and application of rules. Differences can occur between different offices of the same federal department, between different application officers within a regulatory department, and between different inspectors.

⁵¹ A desire for a level-playing field between modes and operators is the key rationale behind Oceanex's recent request for a judicial review of the federal Minister of Transport's approval of Marine Atlantic's April 2016 rates.

Fourth, regulatory **certainty and stability** is crucial for firms, particularly those that are making large, long-term investments. Uncertainty about the future regulatory environment can deter firms from making large investments while major changes to the existing regulatory environment can affect the economics of prior decisions. Corridor Resources, for example, has expressed its concern about the New Brunswick government decision to continue with a recently implemented ban on hydraulic fracturing (fracking).⁵² The company has already invested over \$500 million in the province and has previously used hydraulic fracturing to boost or maintain flow rates from its existing wells.⁵³

The business interviews for this project validate the need for the recently established Joint Office of Regulatory Affairs and Service Effectiveness (see Box: The Need for the Joint Regulatory Office). It has an important role to play in leading regulatory reform in Atlantic Canada and the government of Newfoundland and Labrador should be encouraged to fully participate in the Office, rather than just working through the Atlantic Red Tape Reduction Partnership.

4.4. Broad Guidelines for Regulatory Reform to Help Atlantic Firms

It is clear from interviews with Atlantic business that the regulatory issues they face extend both beyond direct provincial jurisdiction within each province and beyond the borders of Atlantic Canada. The governments of the four Atlantic provinces can undertake regulatory reform directly within their own jurisdictions and in cooperation with each other. However, given the issues faced by Atlantic firms, provincial governments also need to encourage other regional regulators to pursue regulatory excellence and promote regulatory reform and alignment nationally (such as through the Council of the Federation) and internationally, through forums such as the New England Governors and Eastern Canadian Premiers' Annual Conference or through their involvement in international trade negotiations as happened with the Canada-EU Comprehensive Economic and Trade Agreement (CETA).⁵⁴

⁵² Corridor Resources (2016, June 3). Corridor comments on New Brunswick government's decision to continue hydraulic fracturing moratorium. <http://www.corridor.ca/wp-content/uploads/2016/06/06032016.pdf> [News Release].

⁵³ Corridor Resources (2014, December 18). Corridor Response to New Brunswick Moratorium. <http://www.corridor.ca/wp-content/uploads/2014/12/14-12-18-Corridor-Response-To-New-Brunswick-Moratorium.pdf> [News Release].

⁵⁴ For analysis of the potential benefits of this agreement for Atlantic Canada see Chaundy, David (2015). *Opportunities for Atlantic Manufacturers in the EU*. Halifax: APEC.

The Need for the Joint Regulatory Office

The Joint Office of Regulatory Affairs and Service Effectiveness was only established in mid-2015 but has already helped to move the regulatory reform agenda forward in Atlantic Canada in several specific areas. APEC's research and business interviews validate the need for such an organization and point to a number of useful roles that the Office could play going forward. The Office is already active in these areas as a lead agency, advisor and resource to others.

Legislative watchdog: As a legislative watchdog the Office could monitor proposed legislation and regulations in the four Atlantic provinces to ensure that they conform to the regulatory principles set out by the Office and to ensure harmonization of new legislation and regulations across the region whenever possible. Guideline six in the Premier's Charter of Governing Principles indicates that new regulations should consider their economic impact, promote the ease of interprovincial commerce and not create an obstacle to internal trade. Regulators are therefore expected to review approaches in other provinces to ensure they meet this principle while the Office's new Regulatory Assessment and Cost Tool requires the economic impact and the need for regulation be analyzed and costed. The Office should monitor this process and consider whether the regional requirement needs to be strengthened so that Atlantic regulators seek, wherever possible, to harmonize regulatory approaches and the timing of regulatory changes within the Atlantic region.

Education and training: The Office can be a source of best practice for regulation providing education, training and advice to regulators. For example, it is currently developing its Regulatory Assessment and Costing Tool for regulators to review the costs and benefits of new regulations. Based upon the interviews conducted for this study, there is a potentially useful role for the Office to provide such advice and training to other levels of government and other regulators, primarily in areas of particular importance to the regional economy.

Liaison: The Office can play an important role as an intermediary, helping ensure regulators consult with the business community in an appropriate and timely manner and that businesses are kept informed of broader regulatory changes. Based upon the interviews conducted for this study, there is also scope for the Office to provide a liaison role with other governments and regulators to help facilitate regulatory coordination, and encourage regulatory reform and the adoption of best regulatory practices.

Ombudsman: The Office could take on the role of a regulatory ombudsman (although Nova Scotia already has an Office of the Ombudsman). The regulatory reform principles the Office has established will help to better shape the regulatory environment going forward. In the immediate term, the Office has already addressed some specific issues of concern to the business community and this research identifies further areas for regulatory reform. However, given that many regulatory issues are unique to specific industries, there is scope for broader tools to solicit input from the business community. This could be achieved through mechanisms such as a regulatory hotline or a regulatory issues website where businesses can report regulatory concerns or ideas for reform, in addition to the existing stakeholder engagement and consultation activities of the Office. The Office can then act as an intermediary to help resolve the immediate issue. Creating a mechanism to continually solicit input and feedback from the business community will help the Office to determine its priorities on an ongoing basis.

Based upon its research, APEC therefore provides the following guidelines for regulatory reform to ease the regulatory burden facing Atlantic firms. Specific opportunities for regulatory reform within Atlantic Canada are discussed in Chapter 5.

Guideline #1: Atlantic regulatory reform should prioritize areas that will have the largest economic impact, including areas with broad economic reach and industries that have the largest spillovers to other sectors

Based upon its interviews with Atlantic businesses, it is clear that there are many opportunities for regulatory reform. Some of these regulatory barriers are quite significant, but their scope is limited to a relatively small number of firms or narrowly defined industries. Other regulatory issues identified by interviewees were not rated as significant for their individual business but they affect a large number of firms or a wide range of industries.

Ideally, the economic benefit for each potential area for regulatory reform would be quantified and those with the largest net economic benefit prioritized. In the absence of such information, APEC recommends that regulatory reforms be prioritized in areas that affect broad sections of the economy, large industries and those with the biggest potential spillover effects.

Some industries are much larger and more important to interprovincial trade than others, as noted in Chapter 2. Moreover, because of the linkages between industries, regulatory reform in some industries will have larger spillover effects on the broader economy. For example, in the empirical work referenced in Chapter 3, reducing trade costs in wholesale and retail trade, financial services, agriculture and mining, and food manufacturing is forecast to have a bigger influence on national GDP than reducing trade costs in utilities, telecommunications and wood products.

Guideline #2: An effective and comprehensive trade and cooperation agreement among the Atlantic provinces would complement existing regulatory initiatives and have a larger economic impact than regulatory reform that only targets specific areas or industries

There are many areas that need regulatory reform in Atlantic Canada and it will take time to address them all. The empirical research described in Chapter 3 also points to the benefit of broad regulatory reform across the entire economy. It shows, for example, that a 10% reduction in internal trade costs could increase Canadian GDP by 0.9%; but a 10% reduction in trade costs in only one industry increases aggregate GDP by between 0 and 0.14%, much lower than the gain from reducing trade costs in all industries.

However, it is also clear from the review of existing trade agreements in Canada, as summarized in Chapter 3, that broad agreements may take years to take effect and may lack sufficient scope and power to be effective in achieving their goals. To be of value an Atlantic trade agreement would therefore need to have sufficient scope and power to address the majority of regulatory barriers, including an effective dispute resolution process that is open to individuals and firms, and have a short timeframe for full implementation.⁵⁵

To date, the four provincial governments in the region have shown little appetite for a comprehensive trade and cooperation agreement, preferring to collaborate in specific areas.⁵⁶ The establishment of the Office represents a significant step forward. APEC encourages Atlantic governments to supplement this initiative with an effective and broad agreement to eliminate barriers to trade within Atlantic Canada, mutually recognize each other's standards and certificates, and to harmonize standards and regulations when appropriate.⁵⁷

There would still be a continuing need for the Office under such an agreement to help further regulatory excellence, advise on the details of regulatory reform and to ensure that the agreement is effectively implemented.

Guideline #3: Regulatory reform and alignment with the rest of Canada will ultimately build Atlantic Canada's economy by enhancing the scale of growth that can be achieved through alignment among the four Atlantic provinces

Trade with the rest of Canada accounts for the majority (about 70%) of Atlantic Canada's interprovincial trade, as shown in Chapter 2. Many Atlantic businesses operate in other provinces with over 40% of business sector employment in Atlantic Canada attributable to firms that operate elsewhere in Canada.

Empirical research, as reported in Chapter 3, shows that the four Atlantic provinces will see proportionately larger gains in GDP from trade liberalization within Canada than other provinces. It also shows that reducing trade barriers within Canada will increase GDP in the three Maritime provinces by 40-100% more than reducing trade barriers among the Maritime provinces alone as Atlantic firms benefit from greater scale opportunities.

⁵⁵ One business leader suggested that the Atlantic provinces should sign on to the existing NWTPA, saving time negotiating their own agreement and reducing the potential for exclusions that limit the scope and impact of any Atlantic agreement

⁵⁶ Beale, Elizabeth (2007). Creating a Single Economy in Atlantic Canada: Will Our Provincial Governments Follow the Western Lead? *Atlantic Report*. Halifax: APEC, pp. 2-5.

⁵⁷ Even if attempts to reform the Agreement on Internal Trade (AIT) are successful, there may still be value in a complementary Atlantic agreement if the Atlantic provinces can agree on achieving greater regulatory alignment.

Several Atlantic businesses noted during interviews with APEC that having national standards (such as a national building code⁵⁸) or federal regulation of business activity (such as food trade regulated by the Canada Food Inspection Agency) make it easier for them to do business in different provinces.

For a number of other Atlantic firms, national uniformity would reduce the costs associated with a patchwork of provincial standards and regulations across the country. Nova Scotia and New Brunswick, for example, have recognized that:

The need for harmonization of regulatory requirements within the trucking industry is great; however, it is critical that requirements also align nationally and internationally to allow trucks to move freely across the country and abroad.⁵⁹

For some of the Atlantic firms interviewed by APEC, provincial regulations and policies create significant challenges to doing business in other provinces, with Quebec most frequently referenced, including in the agriculture, construction and insurance industries.

Two specific examples of barriers to trade across Canada were shared during the interviews with Atlantic business leaders. Trucking companies in Atlantic Canada have expressed concern about a section of **highway 185 in Quebec**, near the New Brunswick border that has not yet been twinned. While this is an example of a physical infrastructure barrier to trade, not a regulatory barrier per se, the infrastructure issue interacts with the regulatory system. If this section of highway was twinned it would make it easier during spring weight restrictions and allow for the use of long-combination vehicles. Such trucks are allowed in New Brunswick and beyond this section in Quebec, but the inability to travel all the way along this route with a double-trailer impedes the efficiency of trucking operations, requiring companies to use single trailers or to unhook the trailers for that part of their journey and then reconnect them, adding to equipment costs and time.⁶⁰

According to one firm, **an insurance broker providing services to an Atlantic client that does business in Ontario** is required under Ontario law to be licensed by the Registered Insurance Brokers of Ontario, which is costly and time-consuming to obtain with multiple exams to be passed. This is an example of an asymmetric barrier as an Ontario firm can provide such services to a Nova Scotia client. If Ontario recognized the

For a number of Atlantic businesses, national uniformity would reduce the costs associated with a patchwork of provincial standards and regulations across the country.

⁵⁸ http://www.nrc-cnrc.gc.ca/eng/publications/codes_centre/2015_national_building_code.html. However, municipalities may have their own variations and approaches which still creates differences for developers to navigate.

⁵⁹ Partnership Agreement on Regulation and the Economy (2010). p. 3

⁶⁰ <http://www.trucknews.com/features/long-combination-vehicle-corridor-remains-incomplete/>.

credentials of the Atlantic broker it would reduce the compliance cost and compliance risk for Atlantic insurance firms working largely with firms in the Atlantic region.⁶¹

The implication of these findings is that the provincial governments in Atlantic Canada should push their federal and provincial counterparts to harmonize, recognize and coordinate standards and regulations across Canada. In this regard, a substantive and comprehensive renewal of the Agreement on Internal Trade (AIT) that is currently being negotiated, would benefit the Atlantic provinces.⁶² Such initiatives would complement the regulatory reform activity currently underway in Atlantic Canada.⁶³

Governments should be proactive in areas where new regulations are being developed to avoid disparate approaches where a national or common approach would be desirable.

It is also imperative that governments be proactive in areas where new regulations are being developed, to avoid disparate approaches where a national or common approach would be desirable. In APEC's interviews with business, this was emphasized in regard to environmental regulation. For example, if the Atlantic provinces all adopt new environmental regulations at different times using different approaches, it adds to the complexity and costs of doing business in the region. The business community would prefer a coordinated regional approach, and for firms that operate across the country, a national program would be even better. The same point was made in regard to approaches to carbon management. Businesses want any carbon pricing to be done efficiently, by integrating with existing fuel taxes for example. They also favour consistency and harmonization across provinces to ensure fairness and efficiency.⁶⁴

⁶¹ While a broker licensed in an Atlantic province could write a shorter equivalency examination in Ontario, the principal broker in the firm must pass the full examinations to obtain an unrestricted class of license.

⁶² Postscript: On July 22, 2016, subsequent to the completion of this report, Canada's Premiers announced an agreement in principle on a new Canadian Free Trade Agreement to replace the Agreement on Internal Trade. The agreement will include broad coverage using a negative list approach, reduced regulatory burden and enhanced procurement opportunities.

http://www.canadapremiers.ca/phocadownload/newsroom_2016/internal_trade_july22.pdf.

⁶³ The Premiers' Charter of Governing Principles for Regulation indicates that regulators should consider the economic impact on interprovincial trade and not create an obstacle to internal or international trade.

⁶⁴ Different provincial approaches to carbon management may increase the costs and complexities for firms working across multiple provinces at the same time as Premiers have stated their commitment to work together to reduce interprovincial barriers to trade. The Canadian Energy Strategy, announced by Canadian Premiers in 2015, states that provinces can "work together to further enhance carbon management across the country" but notes that "carbon management mechanisms will vary in nature, depending on the unique needs of a jurisdiction." (The Council of the Federation (2015). *Canadian Energy Strategy*, p. 16.). By contrast, the Canadian Association of Petroleum Producers (CAPP) advocated that climate change approaches be "harmonized across jurisdictions within Canada, to an extent that is both reasonable and practical" (<http://www.capp.ca/responsible-development/air-and-climate/climate-change>). Similarly, Suncor Energy is pressing for climate change regulations that are harmonized across jurisdictions, fair, clear and certain and flexible in terms of compliance (<http://sustainability.suncor.com/2015/en/environment/climate-change-action-plan.aspx? ga=1.66807597.2081001231.1386689034>). The Ecofiscal Commission has also indicated that "ultimately, it's both sensible and efficient to have a consistent carbon price across Canada" and urge that "as provinces design independent policies, they should plan for future coordination" (<http://ecofiscal.ca/reports/wayforward/> and EcoFiscal Commission (2015). *The Way Forward: A Practical Approach to Reducing Canada's Greenhouse Gas Emissions*).

Guideline #4: Although beyond the direct scope of Atlantic governments, reducing trade and regulatory barriers with the US and other international partners is also important for Atlantic Canadian businesses

Atlantic Canada's international trade is more than four times larger than trade among the four Atlantic provinces. The majority of this trade is with the United States.

For several firms interviewed for this study, international markets are much more significant than the Atlantic market. Many new technology focused firms in the Atlantic region are globally orientated from the beginning because there is no substantial local market for their specialized products or services. For the Atlantic region to grow, it must become more globally orientated, implying that international trade will have to account for a larger proportion of the region's future output.⁶⁵

Empirical research suggests that Atlantic Canada will see proportionately larger gains in GDP from international trade liberalization than Canada as a whole. It also finds that international trade increases Atlantic Canada's GDP more than internal trade, and that reducing international trade costs would benefit the Atlantic provinces more than the equivalent reduction in internal trade costs within Canada as a whole, as noted in Chapter 3.

While some Canadian regulations are already based upon international standards,⁶⁶ Atlantic firms seeking to export internationally need to ensure they meet the regulatory standards of the market they are serving. International trade agreements can help reduce some of these non-tariff barriers by creating mechanisms for mutual recognition of standards and by enabling Canadian products to be certified in Canada prior to export. The CETA agreement with the EU includes some of these mechanisms.⁶⁷

But several Atlantic firms interviewed by APEC noted issues with the alignment of provincial or national requirements with international standards, or they faced challenges in how international standards are applied to trade within Atlantic Canada.

For example, one firm indicated that **inspection requirements and regulations in the Atlantic offshore** are sometimes much more stringent than acceptable standards used in jurisdictions such as the UK or Norway, reducing the competitiveness of the region. This can apply to the same piece of equipment certified by the same company in the

⁶⁵ APEC (2011). Atlantic Canada Needs to Boost Its Export Performance. *Report Card*, July. Halifax: APEC and Chaundy, David (2016). It's Time to Up Our Game. *APEC Commentary*, January. Halifax: APEC.

⁶⁶ Canadian food standards, for example, reflect the Codex Alimentarius or "Food Code" which was established by the Food and Agriculture Organization (FAO) of the United Nations and the World Health Organization to develop harmonised international food standards.

⁶⁷ For a brief discussion of some of the provisions in CETA that will help Atlantic firms see Chaundy, David and Landin, Claire (2015). *A Brief Profile of the EU: Key Considerations for Atlantic Exporters*. Halifax: APEC.

North Sea but it is not viewed as compliant in the Atlantic offshore. Such differences in standards can add significantly to drilling costs in the Atlantic region to ensure compliance.⁶⁸

Another firm indicated that they can only import a key product from the US during standard business hours at **Canadian customs** which severely limits the operation of their business due to the long transportation times required to and beyond the border.

Trucking companies report that lower **truck weight limits** on part of the I-95 in Maine, compared with weight limits in the Atlantic provinces, forces trucks to use secondary, slower roads, or not to fully load their trucks, both of which reduce efficiency and increase costs.⁶⁹ This has been a long-standing issue.⁷⁰

The **International Fuel Tax Agreement (IFTA)** was also raised as a concern. IFTA is an agreement among all Canadian provinces and most American states that facilitates the process whereby interjurisdictional motor carriers are able to report and pay all motor carrier fuel taxes to a single base jurisdiction.⁷¹ Firms file their IFTA taxes on a quarterly basis. IFTA requires companies to keep track of every single kilometer travelled in every state, even if they have to diverge from their normal route because of a road block or to get fuel. One company suggested IFTA should allow for a margin of error in the calculations. IFTA was also raised as an issue by some non-trucking companies, particularly regarding its complexity and cost when they are only operating within the Atlantic region. If only some of their vehicles are IFTA registered, it can impede their efficiency if they have to apply for a single permit for one trip for a vehicle that was not previously registered. The costs for non-compliance are also viewed as quite high.

Another issue relates to **marine container shipments**. The Maritime Safety Committee of the International Marine Organization recently approved changes to the Safety of Life at Sea (SOLAS) convention. The amendment requires that shippers must now verify the weight of a container before being loaded onto a vessel and specifies two methods by which this can be achieved.⁷² Canada is a signatory to SOLAS and so these changes become legally binding on July 1, 2016.⁷³ Shippers have been concerned about the

⁶⁸ <http://www.cbc.ca/news/canada/newfoundland-labrador/bob-cadigan-noia-offshore-oil-rigs-1.3471224>.

⁶⁹ Aside from these regulatory issues, unbalanced trade can create efficiency challenges when there is more trade going south than coming north. For this reason, Atlantic trucking companies developed a triangular pattern of delivering goods to markets in the US Northeast, picking up cargo for delivery to Central Canada, and then returning with loads destined for Atlantic Canada. APEC (2007). *The Changing Global Economy: The Implications and Opportunities for Transportation in Atlantic Canada*. Halifax: APEC.

⁷⁰ Atlantic weight limits are generally higher than in the US although it seems there has been some progress on this specific issue: <http://maineloggers.com/truck-weight-limit-for-i-95-maine-raised-permanently-in-appropriations-bill/>.

⁷¹ [http://www2.gnb.ca/content/gnb/en/services/services_renderer.4476.International_Fuel_Tax_Agreement_\(IFTA\)_License.html](http://www2.gnb.ca/content/gnb/en/services/services_renderer.4476.International_Fuel_Tax_Agreement_(IFTA)_License.html).

⁷² <http://www.worldshipping.org/industry-issues/safety/cargo-weight>.

⁷³ <https://www.tc.gc.ca/eng/marinesafety/bulletins-2016-04-eng.htm>.

implementation of this change, including the short timeframe and lack of consultation and guidance on the implementation.⁷⁴ The change will increase shipping costs according to one estimate.⁷⁵

The focus of the SOLAS change is on international shipping, but in Canada it also affects domestic shipments. While application of SOLAS is normally limited to ships on international voyages, Section 104 (1) of the Cargo, Fumigation and Tackle Regulations created under the Canada Shipping Act 2001 requires every shipper of cargo to be loaded in Canadian waters to comply with regulation 2 of Chapter VI of SOLAS. This makes the new verified gross mass requirement applicable to containers transported by Canadian ships on domestic voyages. In the Atlantic region this could place domestic marine carriers at a disadvantage relative to trucking and ferry services.⁷⁶

The Canadian government has been working with the US to eliminate obstacles to trade between the two countries through initiatives such as the Beyond the Border initiative and the Canada-United States Regulatory Cooperation Council.⁷⁷ The federal government has also been actively negotiating international trade agreements, most notably the Comprehensive Economic and Trade Agreement (CETA) with the EU.

While provincial governments in Atlantic Canada should support federal efforts to ease barriers to trade with the US and other international markets, they could take a more proactive stance in addressing some of the transportation and other issues highlighted above that affect Atlantic businesses.⁷⁸ For example, reducing international trucking costs would benefit a large range of businesses that import from or export goods to the US. Although the majority of non-energy exports from Atlantic Canada to the US are moved by ship, road transportation still accounts for a sizeable portion.⁷⁹ About 29% of all Atlantic truck movements from Atlantic Canada are destined for the US, and south-bound truck flows are much larger than north-bound flows (Table 4.1).

⁷⁴ <http://www.joc.com/regulation-policy/transportation-regulations/international-transportation-regulations/jocs-container-weight-mandate-guide-20151214.html> and <http://www.canadianshipper.com/features/weighing-in/>.

⁷⁵ <http://www.wsj.com/articles/new-container-weight-rule-could-raise-shipping-costs-congestion-1458587699>.

⁷⁶ By contrast, the US Coast Guard (USCG) has indicated that: "The USCG has no authority over domestic shippers... For the US, the USCG believes that carriers currently comply with SOLAS, and are therefore not requiring domestic shippers to make changes in existing practices... A ship that is strictly engaged in Jones Act (domestic) trade is not impacted by SOLAS because SOLAS applies only to ships engaged in international trade."

<http://mariners.coastguard.dodlive.mil/2016/03/02/322016-solas-amendments-to-container-weight-requirements-new-faqs-published/>

⁷⁷ The Beyond the Border initiative, announced in February 2011, aims to improve both countries' abilities to manage security risks, while accelerating the flow of people, goods and services and reducing transaction costs at the border (<http://www.publicsafety.gc.ca/cnt/brdr-strrgs/bynd-th-brdr/index-en.aspx> and <https://www.dhs.gov/beyond-border>). The Regulatory Cooperation Council, which was announced at the same time, is intended to better align the regulatory environment between the two countries (<http://trade.gov/rcc/>). For details of the initial Joint Action Plan see <https://www.tbs-sct.ca/ip-pi/trans/ar-lr/rcc-ccmr/japrc-paccc-eng.aspx#s4.2.1> and for the August 2014 Joint Forward Plan see http://trade.gov/rcc/documents/RCC_Joint_Forward_Plan.pdf.

⁷⁸ Some of these issues could perhaps be addressed through the New England Governors and Eastern Canadian Premiers' Annual Conference, although, as in Canada, there is often a mix of state and federal responsibilities that may need to be addressed.

⁷⁹ APEC (2007), p. 4.

**Table 4.1 Majority of Atlantic Truck Movements Destined for Canada and the US
Trucking shipments, 2014 (billions of tonne-kilometres)**

	Atlantic Canada	Rest of Canada	US-Mexico	Total
From Atlantic, by destination	4.2	5.9	4.1	14.2
Share (%)	30	42	29	100
To Atlantic, by origin	4.2	10.5	2.5	17.2
Share (%)	24	61	15	100

Source: Statistics Canada, Trucking Commodity Origin and Destination Survey

Chapter 5

Opportunities for Atlantic Regulatory Reform

Chapter Summary

- **Atlantic business leaders pointed to numerous regulatory issues that add to their costs and impede their competitiveness. In general, the biggest regulatory challenges identified were for narrowly-defined products or industries. However, APEC recommends that regulatory issues that affect a larger segment of the economy be prioritized over individual industry-specific issues as, in general, they are likely to have the broadest economic impact.**
- **In terms of interprovincial trade, APEC recommends prioritizing regulatory differences and barriers that affect the trucking industry and the production and sale of alcoholic beverages.**
- **In terms of issues affecting firms that operate in multiple Atlantic provinces, APEC recommends achieving greater alignment in labour standards, safety standards and corporate registrations.**
- **Business interviews point to opportunities for greater openness in government procurement and the potential for savings through greater standardization and joint procurement.**
- **In general labour mobility issues were not identified as large barriers although there are additional costs required for individuals in regulated occupations who need to be licensed in multiple provinces in order to be able to serve their Atlantic clients.**

This chapter summarizes APEC's recommendations on where to prioritize specific regulatory reform and alignment initiatives in Atlantic Canada. This analysis draws on interviews with Atlantic businesses across a wide range of industries who were asked to rate the relative importance of the barriers they faced (see Box, Business Interviews: Research Methodology in Chapter 1). It also incorporates APEC's assessment of the relative importance of the sector, based upon data on industry output, employment and interprovincial trade flows. However, due to the small number of interviews conducted by APEC with firms in any one industry, broader stakeholder consultation and estimates of the costs and benefits of each potential reform will be required before proceeding. Additional opportunities for regulatory reform and alignment identified by Atlantic businesses that have a national and international dimension were discussed in Section 4.4.

When asked to rate the overall regulatory burden that they faced on a 1-10 scale (1=no cost, 10=prohibitive), the scores ranged from 1-2 to 9-10.

While half of the businesses provided a rating of 4 or less, one quarter provided a rating of 7 or more.

APEC recommends that regulatory issues that affect a larger segment of the economy be prioritized over individual industry-specific issues as, in general, they are likely to have the broadest economic impact.

The businesses that APEC interviewed identified a large number of regulatory barriers and irritants. When asked to rate the overall regulatory burden they faced on a 1-10 scale (1=no cost, 10=prohibitive), the scores ranged from 1-2 to 9-10. While half of the businesses provided a rating of 4 or less, one quarter provided a rating of 7 or more. Many firms indicated that they have come to accept and live with the regulations they face, and they have become embedded into their operating practices. Although these businesses continue to operate, these barriers still increase costs and reduce efficiency, lower revenues and impede client service, and deter investment and overall productivity (see Section 3.2 for specific examples).

In general, regulatory reform should be prioritized in the areas which will have the largest economic impact (see Section 4.4). The qualitative nature of the research methodology used for this analysis was not designed to empirically quantify and rank each individual regulatory issue in terms of its economic impact, which would be a challenging undertaking given the many issues identified.⁸⁰ In the absence of such information APEC recommends that regulatory issues that affect a larger segment of the economy be prioritized over individual industry-specific issues as, in general, they are likely to have the broadest economic impact. However, some industry-specific reforms could have larger economic impacts than modest regulatory reforms that benefit many businesses. For example, the Office has estimated that the annual savings to business in the three Maritime provinces from aligning minimum wage changes to April 1 are \$21,000 while aligning record-keeping requirements will save employers \$420,000 each year.⁸¹ By contrast, one firm interviewed for this research indicated that eliminating a specific interprovincial barrier in their industry would increase their revenues by \$2 million while a business in another industry indicated that eliminating a regulatory barrier it would lead to millions of dollars of new investment, resulting in annual increases in output and employment.

The opportunities for Atlantic regulatory reform with the broadest potential effects are summarized in Table 5.1 and explained in more detail in subsequent sections. These issues, that affect a large number of firms or industries, were generally viewed as smaller obstacles (low or low-medium ratings) than the regulatory challenges that affect narrowly-defined products or industries (and which were most likely to receive high or medium-high ratings). However, the economic impact from addressing all of these regulatory issues could still be significant.⁸² The regulatory challenges that received the higher ratings are also discussed in this chapter.⁸³

⁸⁰ It was noted in Section 3.2 and 4.2 that quantifying the economic cost of any one regulation is not easy. Quantifying and ranking the many possible options for regulatory reform raised during the interviews for this research would be a substantial undertaking which is beyond the scope of this research.

⁸¹ The Joint Office of Regulatory Affairs and Service Effectiveness (2016), p. 10.

⁸² In most of the areas identified in Table 5.1, there are multiple regulatory issues that need to be addressed.

⁸³ The only exceptions are where raising the issue would identify the respondent as APEC guaranteed confidentiality to all the firms interviewed.

Table 5.1 Prime Opportunities for Regulatory Alignment in Atlantic Canada
Summary of broad Atlantic regulatory reform opportunities based upon business interviews¹

Regulatory area	Business rating ²	Economic importance	Economic opportunity	Potential challenges
Truck transportation	Medium	Transportation affects movements of all goods, accounting for 10% of Atlantic interprovincial trade and 4.8% of regional business sector GDP.	Greater harmonization of standards and regional cooperation to reduce barriers will improve efficiency and reduce costs.	Many different issues to address. Some may have provincial revenue or spending implications.
Labour standards	Low-medium	Affects all multi-jurisdiction firms, which account for 43% of Atlantic business sector employment.	Harmonization of standards reduces costs for multi-jurisdiction firms.	Some issues (e.g., overtime rates, holidays) likely harder to align.
Corporate registration	Low-medium	Affects all 2,700 firms operating in multiple Atlantic provinces, accounting for 43% of Atlantic business sector employment.	Lower costs for businesses operating or setting up in multiple provinces.	Potential revenue and expenditure (e.g. IT) implications. Failure to date to achieve on pan-Canadian basis.
Safety	Low. High (NL training).	OH&S affects all multi-jurisdiction firms; construction accounts for 8.2% of regional business sector GDP.	Harmonization of safety standards and training reduces costs for multi-jurisdiction firms.	Need to harmonize provincial OH&S legislation and work with provincial self-regulatory bodies.
Alcoholic beverages	Medium-high	Annual Atlantic retail spending on alcohol is \$1 billion with additional spending at licensed establishments but limited Atlantic interprovincial trade.	Improved market access for producers; improved distribution reduces costs; greater choice for restaurants and consumers.	Provincial preferences for own producers. Revenues for provincial liquor corporations.
Public procurement	Medium	Atlantic provincial and municipal governments spend almost \$17 billion annually on goods, services and capital projects.	Potential for lower costs due to greater regional market access and joint procurement.	Needs further analysis to define the scope for joint procurement and the mechanisms to improve access.
Labour mobility	Low. (High in some cases).	Professional occupations account for 16% of Atlantic employment & professional services account for 2.6% of Atlantic interprovincial trade and 4.3% of regional business sector GDP.	Lower costs of providing services and improved client service in regulated occupations.	Requires working with licensing bodies for each occupation in each province or bodies regulating safety standards.

Note: 1. This table summarizes the broad opportunities for regulatory reform identified during interviews with Atlantic business leaders. Other, more industry-specific, issues were generally given a higher rating by firms. Most of these issues are discussed in this chapter or in Section 4.4 for issues with more of a national or international dimension.

2. The business rating is based on responses to an interview question asking firms to rate the biggest regulatory barrier they faced on a 1-10 scale (1=no barrier, 10=prohibitive). The ratings in this table are provided as a qualitative guide to the relative importance of the regulatory barrier as reported by firms; they are not based on empirical estimates of the size or cost of the barrier. As only some of the businesses interviewed identified or scored each regulatory issue, these results should be used with caution: they are generally derived from only 2-5 firms, not a statistically representative survey of all Atlantic firms.

Source: APEC.

There were relatively few direct regulatory barriers to **interprovincial trade** identified in this research. The most important relates to truck transportation where a number of issues were raised due to difference provincial policies and standards. Although the production of alcoholic beverages is a very small part of Atlantic Canada's economy, long-standing restrictions on the distribution of alcohol affect consumer choice and prices at liquor stores, restaurants and other licensed establishments. While food production is a bigger part of Atlantic Canada's economy, the main issue here relates to the cost of meeting CFIA standards for interprovincial food shipments. However, delays in obtaining provincial permits and overlapping federal and provincial regulations, were also highlighted. Other issues raised during business interviews included the marine movement of empty containers, multiple transmission charges for electricity sales and different standards for biofuels.

Multi-jurisdiction firms account for almost half of business sector employment in Atlantic Canada. While some of these firms may not physically move goods or provide services to clients across provincial borders, their attempts to operate a uniform business model are hampered by the need to adapt to different provincial regulations and standards. The issues most frequently raised by the Atlantic business leaders interviewed for this research were in the areas of labour standards, safety standards and corporate registration. Other issues were more specific to individual industries including food permits and liquor licenses; recycling and environmental standards; and gasoline price regulation.

Atlantic provincial and municipal governments spend about \$16 billion annually on goods, services and capital expenditures so **public procurement** is an important area to examine for provincial trade barriers. APEC's interviews with business leaders identified the potential to improve joint procurement and access to contracts.

Labour mobility is vital for Atlantic firms to be able to provide goods and services across the region. While some workers move to other provinces as part of their career progression or corporate mobility, others travel within the region to do their work. For regulated occupations, the need to be licensed, certified or trained in a specific province can add to the costs of providing their services and can impede the quality of service delivery. While these barriers were generally not viewed a big obstacles, they still exist, requiring additional fees and resources to manage multiple certifications. Recognition of safety training in Newfoundland and Labrador and restrictions on lawyers working in other provinces were the biggest labour mobility issues identified during APEC's interviews with business leaders. But as the interview sample size for this research was not large enough to cover all regulated occupations, there may be other occupations that also face important challenges.

The rest of this chapter provides a more detailed explanation and discussion of these opportunities for regulatory reform and regional alignment.

5.1 Opportunities to Facilitate Interprovincial Trade

All the firms interviewed for this study provided goods or services across provincial borders within Atlantic Canada although a small fraction indicated that they were only providing head office administration and support services to their Atlantic locations. In total, about 70% of the firms interviewed indicated that there are barriers to trade within Atlantic Canada. For an additional 14% of firms interviewed, there are no provincial barriers per se because their product movements are regulated by the Canadian Food Inspection Agency (CFIA); however, obtaining CFIA approval for interprovincial movements of food products can impose high costs on producers. A few firms noted that delays, cancellations and other scheduling challenges associated with using the Marine Atlantic ferry service for perishable food and other items were a significant impediment to trade although these are more of a transportation infrastructure issue than a pure regulatory barrier to interprovincial trade.

About 70% of the firms interviewed indicated that there are barriers to trade within Atlantic Canada with a further 14% subject to stringent CFIA regulations for interprovincial trade in food products.

When asked to rank their biggest barrier on a 1-10 scale (1=no barrier, 10=prohibitive), the responses ranged from 2-3 to 10, with a median response of 5.⁸⁴ Overall, the highest scores were for narrowly-defined products or industries. Based upon its analysis of these responses, APEC recommends regulatory reform be prioritized in the following areas.

Truck Transportation

Transportation is a vital means of facilitating interprovincial trade within Atlantic Canada. APEC estimates that goods, other than crude oil and electricity, account for 30% of interprovincial trade within Atlantic Canada and trucking is used for the vast majority of tonnage moved in these interprovincial shipments.⁸⁵ The costs of services provided by the transportation industry to move products and people represent about 10% of Atlantic interprovincial trade. Empirical research also identifies transportation as having large inter-industry effects. In addition to firms in the trucking industry, Atlantic firms in construction and automotive services also reported challenges relating to trucking.

The key issues identified by businesses were as follows.

Dimensions and weights for trucks and trailers vary by province, creating a significant challenge since the size and weight of equipment can vary greatly:

⁸⁴ These empirical results exclude the firms that reported no provincial barriers due to CFIA oversight.

⁸⁵ APEC estimates that in 2003 at least 67% of Atlantic non-energy movements were by road. For details, see APEC (2007), p. 4.

Constitutionally, responsibility for and jurisdiction over the highway system was assigned to the ten provincial governments in 1867. The provinces and territories currently have direct responsibility for approximately one third of the network, and have assigned responsibility for the remainder to their respective municipal governments. About 2% of the highway system, located in national parks and other federal lands, is under federal jurisdiction.

Policies regarding highway design and operational standards are developed and implemented by each of the provincial and territorial governments, with collaboration on national guidelines in these areas... The provinces and territories have authority for establishing vehicle weight and dimension limits on roads within their jurisdiction... The provincial and territorial governments also have authority for issuing special permits for oversize and/or overweight loads... Consequently it is within the provincial/territorial context that regulations respecting the weight and dimensions of heavy trucks have evolved, and decisions on designation of truck routes, route and bridge restrictions are made.⁸⁶

Progress has been made in simplifying and harmonizing different standards across Canada, including the 1988 *Memorandum of Understanding Respecting an Agreement on Interprovincial Vehicle Weights and Dimensions*.⁸⁷ The 2001 *Agreement on Uniform Vehicle Weights and Dimensions Limits in Atlantic Canada*, was designed to ensure uniform regulatory requirements throughout the region, although the transition period lasted until 2009.⁸⁸

A 2008 report concluded that “the dimension limits applicable to vehicle configurations most commonly used in interprovincial transportation are now virtually uniform across Canada” and that weight limits in the Atlantic provinces have been equalized.⁸⁹ Despite this assurance, in 2015 the government of Nova Scotia announced it was making amendments to its weight and dimension regulations for commercial vehicles to bring its regulations in line with those of most other Canadian jurisdictions.⁹⁰

Moreover, trucking companies, construction firms and other firms that operate their own vehicles still report challenges in this area that impedes the efficiency with which they can operate. For example quad axles for general freight are not allowed in New Brunswick at the same weight level as in Quebec.

⁸⁶ Council of Ministers Responsible for Transportation and Highway Safety (2008). *Harmonization of Transportation Policies and Regulations: Context, Progress and Initiatives in the Motor Carrier Sector*. Report to the Council of the Federation, p. 20. <http://www.comt.ca/english/coff-report.pdf>.

⁸⁷ Council of Ministers Responsible for Transportation and Highway Safety (2008), p. 21.

⁸⁸ <http://www2.gnb.ca/content/gnb/en/departments/dti/trucking/content/harmonization.html>.

⁸⁹ Council of Ministers Responsible for Transportation and Highway Safety (2008), p. 26, 30.

⁹⁰ <http://novascotia.ca/news/release/?id=20151021005>.

The benefits of harmonization can be substantial:

Harmonization of truck size and weight limits associated with the 1988 MOU resulted in improved highway system productivity, regulatory incentives to use the most stable, safest and productive vehicle configurations, reduced impacts on highway infrastructure and reduced transportation costs.

Economic impact assessment studies conducted in 1988 and in 1993 demonstrated that the changes which had been introduced produced net annual savings in truck transportation costs of \$180 to \$300 million annually, the majority of which were passed on to shippers through reduced rates.⁹¹

An MOU to harmonize of truck size and weight limits across Canada produced net annual savings in truck transportation costs of \$180 to \$300 million annually.

However, harmonization may still have costs:

For example, jurisdictions which have lower weight limits will face added infrastructure costs if limits are raised; carriers and shippers may face higher transport costs if limits are lowered, and more trucks will be required to move the same amount of freight, thus further congesting highways and increasing emissions.⁹²

There have been some successes, most notably the harmonization of regulations for long-combination vehicles (LCVs), with New Brunswick, Nova Scotia, Ontario and Quebec working together to “provide for the free movement of LCV’s amongst the 4 provinces, provided the conditions of the movement within each respective province is met.”⁹³ However, changes to regulations under the federal Motor Vehicle Safety Act may, for example, require changes to provincial legislation to be fully implemented.

Double-wide tires can reduce fuel consumption and hence greenhouse gas emissions. In Ontario and Quebec truckers are allowed the same weights per axel for single and dual tires. However, the allowable weights a carrier can use for double-wide or wide-base single tires and two single (dual) tires are not consistent in Atlantic Canada, limiting the ability of carriers to make effective use of them.

Equipment registration is required every year in New Brunswick, every five years in Nova Scotia and once in its lifetime for a trailer in Ontario. As a result, one New Brunswick-based trucking company indicated that it registers all its vehicles in Ontario and does not register any of its vehicles in New Brunswick, although it is not clear if the actual process of registering in Ontario is more expensive than registering in its home province. Harmonizing fees and renewal frequencies across Canada would reduce the incentives for firms to register in the lowest cost jurisdiction and for New Brunswick would likely increase registration revenues.

⁹¹ Council of Ministers Responsible for Transportation and Highway Safety (2008), p. 22.

⁹² Council of Ministers Responsible for Transportation and Highway Safety (2008), p. 11.

⁹³ <http://www2.gnb.ca/content/dam/gnb/Departments/trans/pdf/en/Trucking/LCV-Guidelines.pdf>

A **Carrier Profile** is a measurement of a carrier's performance, and is comprised of demographic information, accident record, contraventions, and vehicle inspections.⁹⁴ The National Safety Code (NSC) for Motor Carriers was established in 1987 to "promote national consistency in provincial and territorial requirements and regulations," resulting in national minimal standards.⁹⁵ In particular, the NSC Standard on Safety Rating requires that "every motor carrier have a safety rating issued by the base-plating jurisdiction and that similar carrier performance result in the same rating, regardless of jurisdiction."⁹⁶

However, in practice different provinces use different algorithms resulting in different carrier profiles. Even though the same truck may be travelling through the region, their safety record and likelihood of receiving a safety violation varies by province. One company felt that the provinces cannot keep up with all the information being collected and that the safety scoring is not accurate. The issue here is not about reducing safety standards but improving the efficiency and consistency of the system. The trucking industry has been calling for a single carrier profile and safety rating system in Atlantic Canada since at least 2002.⁹⁷ On May 16, 2016, the four Atlantic Premiers agreed to assess "options for standardizing the carrier profile system in the trucking sector."⁹⁸

The trucking industry has been calling for a single carrier profile and safety rating system in Atlantic Canada since at least 2002.

Permits for oversize or overweight loads have also been raised as an issue with a carrier sometimes needing multiple permits to carry such a load through the Atlantic region. Creating mechanisms so that Atlantic provinces could issue one permit for travel throughout the Atlantic region would reduce costs for the carrier without impeding road safety concerns. Creating an online regional system for special move permits was proposed in the 2009 Partnership Agreement on Regulation and the economy between Nova Scotia and New Brunswick.⁹⁹ However it was never implemented. The cost of creating a common IT system to process such applications is one obstacle to creating such a regional permit system. The inability to easily move large loads across Canada has limited the opportunities for Atlantic manufacturers to support the construction of large energy projects in Alberta; by contrast, US heavy haul carriers only need one Interstate permit to move a load from Texas to Alberta.¹⁰⁰

Fuel tax rates differ by province. In Canada, current provincial tax rates for diesel vary from 13 cents per litre in Alberta to 22.67 cents per litre in British Columbia, although

⁹⁴ <http://www.safetyprograms.ca/CarrierProfile>

⁹⁵ Council of Ministers Responsible for Transportation and Highway Safety (2008), p. 14.

⁹⁶ Council of Ministers Responsible for Transportation and Highway Safety (2008), p. 17. There are also differences between countries with the US tracking Canadian carriers but not vice versa.

⁹⁷ <http://www.todaystrucking.com/apta-calls-for-single-carrier-profile-and-safety-rating-system-in-atlantic-canada>.

⁹⁸ <http://www.cap-cpma.ca/images/CAP%2028%20Communique%20FINAL-EN.pdf>

⁹⁹ <http://pare-eper.ca/pdf/NB-NSAgreement-e.pdf>, p. 6.

¹⁰⁰ The Van Horne Institute, PROLOG Canada Inc. and JRSB Logistics Consulting (2015). *Over-dimensional loads - a Canadian solution*. Calgary: Van Horne Institute. <http://vanhorne.info/files/vanhorne/over-dimensional-loads-a-canadian-solution.pdf>.

differences in sales tax rates can further amplify the differences across provinces. In general, these taxes are passed on and charged to customers. As a result, shippers cannot charge customers a common rate per kilometer – they must calculate the shipment charge based upon the kilometers travelled in each province. The diesel fuel tax rate in Nova Scotia is currently 15.4 cents per litre. But with Newfoundland and Labrador’s recent increase, its rate is now the same as New Brunswick at 21.5 cents per litre, slightly higher than Prince Edward Island’s rate of 20.2 cents per litre. Issues related to the **International Fuel Tax Agreement (IFTA)** were also raised; these are discussed in Chapter 4.3.

Vehicle taxation can impede the transfer of vehicles between jurisdictions. For example, according to one firm, if they want to move some five-year old trucks from New Brunswick to Nova Scotia because they have a surplus in New Brunswick but need them in Nova Scotia, they have to pay the difference in provincial tax on the original purchase price of the vehicles, rather than the current resale value. This impedes the transfer of vehicles from low to higher tax jurisdictions. However, effective October 1, 2016, all four Atlantic provinces will have the same HST rate of 15%, minimizing the significance of this issue for current vehicle movements within the Atlantic region.¹⁰¹

Spring weight restrictions are not synchronized across the region, beginning and ending a few weeks earlier or later in some regions and provinces than others, although the times can vary from year to year.¹⁰² These weight limits restrict the loads trucks can carry, although not usually on primary highways, impeding the efficiency of moving goods compared to normal driving times. In 2016, there was a one week gap between the first and the last weight restriction being implemented in the three Maritime provinces and a one month gap between the earliest and the latest weight restriction being lifted.¹⁰³ These differences reflect variations in climate across the Atlantic region and the thickness of the pavement in different provinces. Harmonizing the timing of spring weight restrictions would therefore require changes to road construction and quality. The costs of making such changes likely outweigh the benefits.¹⁰⁴ Trucking companies have therefore learned to live with these temporary restrictions and the differences between regions.

¹⁰¹ Businesses may be eligible for an input tax credit to recover the provincial part of the HST payable when moving to another HST-participating province. In Nova Scotia they may be able to apply for a rebate of the motor vehicle tax, if applicable at the time of vehicle registration in the province.

¹⁰² New Brunswick has a Northern and Southern region; weight restrictions were lifted at different times for three areas of Nova Scotia in 2016.

¹⁰³ Spring weight restrictions in 2016 were as follows: February 28-May 15 (Southern NB); February 29-April 25 (Southern and Central NS); February 29-May 2 (Northwest NS); February 29-May 9 (Northern NS and Cape Breton); March 2-April 26 (Prince Edward Island); and March 6-May 22 (Northern NB).

¹⁰⁴ A report published in 2000 indicated that the cost savings from seasonal load restriction in different countries (mainly in Europe) ranged from 40-92%, with an average of 79%. The US has estimated expected increases in pavement life of 60-100% as a result of using seasonal load restrictions. And a study in Alaska found that the damage to roads from not imposing seasonal load restrictions was greater than the loss of revenues to the trucking industry. Canada Strategic Highway Research Program (2000). Seasonal Load Restrictions in Canada and Around the World. C-SHRP Technical Brief #21. <http://www.cshrp.org/products/brief-21.pdf>.

Alcoholic beverages

Total sales of alcoholic beverages at retail outlets in Atlantic Canada amount to about \$1 billion per year – so this is a large market.¹⁰⁵ Total spending on alcohol amounts to about 1.3% of consumer spending in the Maritime provinces and 1.6% in Newfoundland and Labrador.¹⁰⁶ Just under 30% of spending on alcohol takes place in licensed establishments with the remainder from stores.

However, reported interprovincial movements of alcoholic beverages within Atlantic Canada are quite small, amounting to \$11 million in 2012, only 0.1% of total regional trade, although data on exports from New Brunswick are suppressed. The main flows are \$7 million from Newfoundland and Labrador and \$4 million from Nova Scotia to New Brunswick. While these flows are small and may reflect barriers to the movement of liquor, both Newfoundland and Labrador and Nova Scotia export about \$95 million each in alcoholic beverages to other Canadian provinces.

One restaurant owner indicated that it was easier to obtain wine and beer internationally than from other provinces.

Obstacles to the free movement of alcoholic beverages were reported by beer and wine producers as well as by restaurants. Some of these issues may reflect legacy effects from the Prohibition era and subsequent provincial restrictions on the sale of alcohol, both within and between provinces.¹⁰⁷ One restaurant owner indicated that it was easier to obtain wine and beer internationally than from other provinces. The main issues identified in APEC's interviews with Atlantic firms are as follows.

The **beer market in Newfoundland and Labrador** is not accessible to brewers from other provinces. Beer in Atlantic Canada is generally sold through government liquor corporation stores.¹⁰⁸ In Newfoundland and Labrador, however, locally-brewed beer is available in convenience stores but imported beer is only available in liquor corporation stores. As convenience stores account for about 85% of beer sales in the province, most of the market is only accessible to local brewers.¹⁰⁹ Newfoundland and Labrador is a relatively large market for alcoholic beverages. Its residents spend the most of any province on beer, spirits and alcoholic beverages as a whole, amounting to \$82 per person per month, compared with \$60 per month in Canada as a whole.¹¹⁰ Total sales of alcoholic beverages in the province amounted to about \$443 million in 2014/2015, about 30% of the Atlantic market. However, it only amounts to about 2% of total sales in Canada, which limits the incentive to open a local brewery just for that market.

¹⁰⁵ \$1,056 million in 2014/2015. Statistics Canada, CANSIM table 183-0023.

¹⁰⁶ \$1,056 million in 2014/2015. Statistics Canada, CANSIM table 326-0031.

¹⁰⁷ <http://www.cbc.ca/news/canada/canada-s-weird-liquor-laws-1.1004724>. As discussed in Section 3.3, provincial restrictions on out-of-province purchases are now before the courts.

¹⁰⁸ <http://www.cbc.ca/news/business/beer-sales-guide-to-the-provinces-and-territories-1.3036387>. Some privately-owned agency stores are allowed to sell alcohol in rural locations in Nova Scotia and New Brunswick.

¹⁰⁹ Share calculated from comparing beer sales reported in Newfoundland and Labrador Liquor Commission (NLC)'s *Annual Report 2014/2015*, p. 8, with data for total provincial beer sales from Statistics Canada CANSIM table 183-0023. By contrast, almost all the wine and spirits in the province are sold through NLC stores.

¹¹⁰ Statistics Canada, CANSIM table 183-0023.

The **pricing of alcohol** by provincial liquor commissions favours small, local producers, which receive higher prices, rather than treating all producers equally. These policies can deter growth as a producer may lose their preferential margin on all their sales once they exceed the provincial threshold, thereby reducing their profit margins. These policies could be amended so all producers receive a higher margin on volumes up to a set amount, with smaller margins on all subsequent shipments. There are also variations in the thresholds and mark-ups in the four Atlantic provinces which could be standardized. For example, each province could recognize a local producer from another Atlantic province and treat them the same as for producers from their own province. While these potential changes would help some Atlantic producers, they may lead to lower revenues for provincial liquor boards.

There are restrictions on the **distribution of alcohol** within the region, which impede the efficiency of importing and distributing alcohol. Some provinces have first receipt rules or requirements for their own liquor corporation carriers to collect alcohol from warehouses for sale in their stores.

Restaurants (and possibly other licensed establishments) also face challenges with **access to supplies**, which are determined by provincial liquor corporations. One restaurant operator, with locations in all four Atlantic provinces that offer a standardized menu and drink options, faced challenges securing their preferred beverages because they were not available on the listing for a particular provincial liquor corporation. Even though the producer was willing to ship the product from another Atlantic province where it was available, this was not permitted as it had to be purchased through the local liquor corporation. If liquor corporations were willing to supply from other liquor corporations when they don't stock an item, this obstacle could be resolved. The business owner indicated that sales of alcohol amounted to about 20% of their revenues, so limitations on the supply of alcohol and higher costs to accommodate such restrictions have a sizeable impact.

Food shipments

Shipments of food and seafood products among the Atlantic provinces, other than live animals and alcohol, amount to about \$1.3 billion, or about 13% of total trade within the region. New Brunswick and Prince Edward Island are the largest exporters of agricultural products within the region; Newfoundland and Labrador and Nova Scotia are the largest exporters of seafood products; and New Brunswick and Nova Scotia are the largest exporters of other food products.

The federal government is responsible for all food moving in Canada and with other countries. The Food and Drugs Act is the main legislation which governs the production

and trade in food products. No food can be imported or sold in another province unless it meets the prescribed standard.¹¹¹ Although the federal government oversees food labelling and recalls, it has left the provinces to manage within province trade.

Producers that want to move from a provincially-inspected facility to a federally-inspected facility face significantly higher costs in order to be able to sell their products in other provinces.

Producers that want to move from a provincially-inspected facility to a federally-inspected facility face significantly higher costs which act as a barrier to trade because provincial requirements for meat production and sale within a province, for example, may be less strict and less prescriptive than federal requirements governing interprovincial sales. One producer estimated that the capital costs required to meet the federal regulations amounted to about half of their annual revenues prior to this shift, requiring new infrastructure and additions to their plant. Their processing costs also doubled over a few years, largely due to the need to meet federal requirements. They also needed external advice and expertise to successfully make this move.

To justify such investments and cost increases, a local processor would need to expect a large increase in production volumes and revenues. Such investments may be required to sell to large supermarkets that have centralized warehouses and therefore require their suppliers to meet CFIA standards so they can ship products to any province.¹¹² However, the processor that made the move sees it as a benefit in terms of the upgrades to their facility and their adoption of best operating practices.

Although there may be strict federal standards governing food production for sale across provincial and international borders, Canadian food standards reflect the Codex Alimentarius or "Food Code" which was established by the Food and Agriculture Organization (FAO) of the United Nations and the World Health Organization to develop harmonised international food standards, which protect consumer health and promote fair practices in food trade.¹¹³ CFIA standards are also important in ensuring access for Canadian producers to international markets. There are therefore risks if the federal government were to allow the Atlantic provinces, for example, to self-regulate products for sale within (but not outside the Atlantic region). The Atlantic provinces would also need to agree on and enforce a common standard, or at least mutually recognize food produced from a certified plant in another province. What is less clear is how many provincial producers would want to shift from a provincial market to a regional market, without accessing other Canadian or international markets. The Atlantic market is still very small and if Atlantic firms really want to grow and succeed they need to meet international standards.¹¹⁴

¹¹¹ Not all food products have prescribed standards. The three main registered groups are meat, dairy and fish. Less hazardous products can move more freely.

¹¹² Large retail stores may also have their own requirements for food safety.

¹¹³ <http://www.fao.org/fao-who-codexalimentarius/en/>.

¹¹⁴ Chaundy, David (2016).

This does not mean that there are no lost opportunities. One restaurant owner wanted to produce their own cheese but the requirements to sell to their other Atlantic locations were too onerous to make this feasible. Firms in the aquaculture industry also need provincial permits to move live smolts between provinces but can sometimes face costly delays in accessing such permits.¹¹⁵ There can also be complexity in requiring permits from multiple departments, provinces and from the CFIA.

Firms in the aquaculture industry can sometimes face costly delays in accessing permits.

Other Interprovincial Trade Issues

Other interprovincial trade issues highlighted during the business interviews were specific to a small group of firms or an industry segment.

Interprovincial sales of **electricity** can be impeded by both regulatory issues and limited infrastructure. Interprovincial movements of electricity amounted to \$132 million in the Atlantic region in 2012. The Atlantic Energy Gateway initiative has recently focused on how to achieve greater regional cooperation, benefits, and efficiencies among the various participants in the electricity and clean renewable energy sector.¹¹⁶ Electricity sales can be hampered by what is known as “pancaking” – the addition of access charges (open access transmission tariffs or OATTs) as electricity travels through different jurisdictions. Integrating the management of regional transmission and the creation of a single Atlantic transmission tariff could reduce transmission costs.¹¹⁷

Electricity sales can also be limited by a lack of infrastructure to ensure sufficient transmission capacity. A recent report noted that:

Adequate transmission capacity is a key element to generation expansion. Lack of transmission capacity leads to congestion and results in sub-optimal generation dispatch. This results in increased electricity production costs through curtailment of low cost generation and dispatch of more costly alternatives. The addition of transmission capacity will reduce marginal electricity costs across the region.¹¹⁸

The PEI-New Brunswick Interconnection Upgrade Project, currently underway, will install two 180MW submarine cables between the two provinces, increasing transmission capacity compared with the two existing 100MW cables. This upgrade will help meet Prince Edward Island’s future peak electrical demand and improve reliability as the existing 39-year-old cables will be used as back up until they reach the end of their

¹¹⁵ Bill, Alex (2016). Fish farmer sues province over char import woes. *AllNovaScotia.com*, June 8.

¹¹⁶ Martillac Ltd and Thompson & Associates (2012). *Atlantic Energy Gateway Report on Regional Electricity System Operations*. http://energy.novascotia.ca/sites/default/files/aeg_regional_electricity_system_operations.pdf.

¹¹⁷ Weil, Gordon (2014). *Taking Stock of Atlantic Canada’s Electricity Sector*. Halifax: Atlantic Institute for Market Studies, p. 18.

¹¹⁸ Atlantic Energy Gateway Transmission Planning Committee (2012). *Atlantic Energy Gateway Transmission Modeling Study Report: A Study of Transmission Upgrade Options For Atlantic Canadian Utilities*, p. 1. http://energy.novascotia.ca/sites/default/files/aeg_transmission_modeling.pdf.

service life.¹¹⁹ Emera is also currently constructing the Maritime Link which will permit imports from Newfoundland and Labrador via a 500MW subsea cable.¹²⁰

Different standards for **biofuels** can potentially impede interprovincial movements of gasoline.¹²¹ Since December 2010, Canada's Renewable Fuels Regulations require that fuel producers and importers have an average renewable content of at least 5% based on the volume of gasoline that they produce or import.¹²² As this mandate for a 5% ethanol blend is required at the national level, it can create some interprovincial trading issues. For example, the Irving refinery in New Brunswick must meet this requirement as a producer, but the gasoline imported into Nova Scotia through the Imperial Oil terminal does not include ethanol as the requirement is met at the national level, not the provincial level. While a gasoline station in Atlantic Canada can switch from selling regular gasoline to gasoline blended with ethanol, it is costly to switch back because of the need to clean the tanks, for example. This means that gasoline stations must choose whether to sell ethanol in their gasoline or not. This restricts their ability to change suppliers and limits the movement of gasoline around the region, in response to differences in price or temporary shortages in a locality. Uniform specifications across Canada and North America would assist the movement of such petroleum products.

The marine movement of **empty containers** was raised as an issue. The Coasting Trade Act limits the movement of cargo (cabotage) between Canadian ports to a Canadian flagged vessel.¹²³ The movement of empty containers is viewed as cargo (cabotage) under the Act, unlike the equivalent US Jones Act that exempts empty containers moved between US ports.¹²⁴ This leads to higher costs for Canadian shippers to reposition empty containers as they must be moved by truck or rail, due to the absence of frequent or cost-effective Canadian-flag marine services.¹²⁵

Construction takes place in a specific location so does not create interprovincial trade per se. However, some construction firms work in multiple provinces. While often working with local contractors, they also move some of their own labour and import materials and fabricated components to the construction site. Issues around

¹¹⁹ Stantec (2015). *PEI-NB Cable Interconnection Upgrade Project – VOLUME 1 Project Description*, p. 1.5.

<https://maritimeelectric.app.box.com/v/proposedinterconnectionupgrade>.

¹²⁰ <http://www.emeranl.com/en/home/themaritimelink/overview.aspx>.

¹²¹ <http://www.biofuelnet.ca/2013/09/26/canadian-federal-and-provincial-biofuels-mandates/>.

¹²² <http://www.ec.gc.ca/energie-energy/default.asp?lang=En&n=0AA71ED2-1>.

¹²³ <https://www.tc.gc.ca/eng/policy/acf-acfs-menu-2215.htm>.

¹²⁴ <http://www.shipfed.ca/data/Submissions/BS-2011-01-24CoastingTradeBrief.pdf> and

<http://www.halifaxemployers.com/index.php?id=5&a=198>.

¹²⁵ While a foreign shipper could apply for coasting trade licence, the costs of doing so are viewed as making this option infeasible, and such a license has never been granted. However, when the Canada-EU Comprehensive Economic and Trade Agreement (CETA) is implemented, EU enterprises will be permitted to reposition their owned/leased empty containers without revenue using vessels of any registry without a coasting trade license. <http://www.canadiansailings.ca/?p=10152>.

construction safety and worker mobility are addressed in the next section on multi-jurisdiction firms.

5.2 Opportunities to Facilitate Multi-Jurisdiction Firms

Multi-jurisdiction firms – those that operate in more than one Atlantic province – account for almost half (43%) of business sector employment in the Atlantic region, as noted in Chapter 2.

By design, a high proportion (about 70%) of the firms interviewed for this research operate in multiple Atlantic provinces. About 90% of these indicated that there are additional costs to operating in more than one Atlantic province. While some of these firms do not move products or provide commercial services across provincial borders, as they provide administrative and head office support services to their different locations, their higher costs can be viewed as a barrier to trade. They also impede firms looking to expand beyond their home province.

When asked to rank their biggest barrier on a 1-10 scale (1=no extra cost, 10=prohibitive), the responses ranged from 2 to 10, with a median response of 6. Overall, the highest scores were for narrowly-defined products or industries. Based upon its analysis of these responses, APEC recommends regulatory reform be prioritized in the following areas.

Labour standards

Differences in labour standards were specifically referenced by just over half of the multi-jurisdiction firms that reported higher costs due to different provincial standards and regulations. While several of these firms ranked differences in labour standards in the 2-3 range, a couple of firms rated these at 5-6 on a 1-10 scale (1=no extra cost, 10=prohibitive). As these differences affect all firms that operate in multiple Atlantic provinces, affecting in total about 300,000 business sector employees, there is a strong economic rationale for taking action in this area.

Specific differences cited by respondents include: overtime rates and when these are paid;¹²⁶ vacation allowances and vacation pay; public holidays;¹²⁷ and benefits and severance (notice and rates). Minimum wages also vary by province and until recently were changed at different times of the year.

Firms that operate in more than one Atlantic province account for almost half (43%) of business sector employment in the region.

About 90% of the firms interviewed indicated that there are additional costs to operating in more than one Atlantic province.

Differences in labour standards were specifically referenced by just over half of the multi-jurisdiction firms.

¹²⁶ For example, in Nova Scotia and Prince Edward Island, overtime is typically paid at 1.5 normal wage rates after 48 hours of work in a week. In Newfoundland and Labrador and New Brunswick, overtime is paid at 1.5 times the minimum wage after 40 hours and 44 hours respectively (so higher paid workers may not be eligible).

¹²⁷ Canada Day can pose issues when it falls on a Sunday. If there is no provincial legislation then firms must follow the federal Holidays Act, which requires them to close on Monday July 2; as a result, many businesses may open on July 1, which may not be ideal for workers, whereas stores may be closed on Monday which is not ideal for consumers. <http://thechronicleherald.ca/business/111504-ns-rethinks-canada-day-shopping>.

The issues raised during the interviews all relate to differences in standards among the provinces.¹²⁸ These differences raise the overall operating costs of business in terms of additional time and resources to manage these differences within their human resources, accounting and head office departments. Aside from the added complexity, these differences can create equity issues within firms that must be carefully managed (e.g., staff on the same project coming from different provinces but subject to different standards; staff in Nova Scotia getting a new public holiday that staff in another province do not get). They can also impede efficiency (e.g., when back office staff are not available to support work by professionals in another province).

The three Maritime Premiers have acknowledged the need for action in this area in their Plan of Action for Regional Regulatory Reform:

The three Maritime Provinces recognize there are a number of differences in provincial employment and labour standards laws. There are different requirements for employers and different rules that are applied within Maritime workplaces. These differences are often unnecessary. The three Premiers want to harmonize, simplify and eliminate those differences, making it easier for businesses that employ people in all three provinces – or may want to – or employees that may work in Nova Scotia, New Brunswick and Prince Edward Island.¹²⁹

As a first step, the Premiers agreed to introduce legislation to harmonize (or mutually recognize) the kind of employee records employers need to keep. In addition, the Premiers have agreed to harmonize the timing of minimum wage changes. Effective 2016, both Nova Scotia and New Brunswick are changing their minimum wages on April 1; Prince Edward Island will align with this date in 2017.

Most firms operating on an Atlantic or Canadian basis want to (and try to) operate a standardized business model across their operations. Differences among provinces in labour standards impede this approach, raising costs and reducing efficiency and productivity. Steps to create greater alignment in this area would be of benefit to these firms, although harmonizing up or down may have implications for other firms and for employees (e.g., changes in overtime rates).

Some policy differences may reflect legitimate differences in provincial priorities with provinces preferring to retain provincial policy flexibility. But in practice some policy differences may not be large enough to justify the additional costs they create for the business sector. For example, as of June 1, minimum wage rates are \$10.50/hour in Newfoundland and Labrador, \$10.65 in New Brunswick, \$10.70 in Nova Scotia and

¹²⁸ There may also be administrative gains from harmonizing language and definitions across provinces.

¹²⁹ <http://novascotia.ca/regulatoryvopportunity/plan-of-action.asp>.

\$10.75 in Prince Edward Island.¹³⁰ This 25 cent difference does not suggest the provinces have vastly different policy preferences in this area and in 2002 all four provinces converged on the same minimum wage of \$6/hour. This small difference in minimum wage rates has persisted for at least 25 years. During this time, the minimum wage rates in the Atlantic provinces have only varied by more than 50 cents in three years.¹³¹ And with the exception of 2010, the difference in minimum wage rates has been less than 10%; since 2011 the gap has been less than 5%.

Employers also prefer the certainty that is built into the Nova Scotia model where the minimum wage is adjusted each April by the change in the national Consumer Price Index in the previous year. This model provides for great predictability, removes political influences from each decision, and allows firms lead time to budget and manage changes to their labour costs.¹³² For example, some firms adjust their prices at infrequent intervals; knowing how the minimum wage will change would assist their business planning.

While most of the issues raised regarding labour standards related to provincial legislation, for some firms the differences were between the occupation-specific regulatory bodies in each province. For example, there may be differences in entrance requirements, continuing education and even advertising rules that determine what services and expertise can be advertised and sold.

Safety standards

Differences in safety standards were only raised during APEC's interviews by firms operating in the construction sector (including fabricators). Safety is a major priority in the construction sector, but safety standards and occupational health and safety (OH&S) legislation apply to firms and workers in all industries.

Construction is an important part of Atlantic Canada's economy, with every business, government agency and household working and living in a structure erected by the construction industry, along with the roads, water and wastewater services that are

¹³⁰ Minimum wage data from <http://srv116.services.gc.ca/dimt-wid/sm-mw/rpt1.aspx>. Prince Edward Island will increase its minimum wage to \$11/hour on 1 October 2016 and New Brunswick plans to increase its minimum wage to \$11/hour on April 1, 2017.

¹³¹ This was mainly in 2009 and 2010 when Newfoundland and Labrador moved from having the lowest minimum wage rate in the Atlantic region to the highest. A subsequent pause in its rates saw the province again return to having the lowest Atlantic rate. There are other differences in minimum wage regulations. For example, in Nova Scotia, the minimum wage rate for inexperienced employees (i.e., a person who has not been employed for more than three months by any employer to do the work for which he/she is presently employed) is 50 cents lower than the general rate at \$10.20.

¹³² <http://www.retailcouncil.org/advocacy/nova-scotia-to-increase-minimum-wage-to-1060-on-april-1-2015> and <http://www.retailcouncil.org/advocacy/pei-government-announces-two-minimum-wage-increases-for-2016-%E2%80%93-no-consultation-with>. New Brunswick has also indicated that it plans to increase its minimum wage by the rate of inflation after it reaches a rate of \$11/hour in 2017. http://www2.gnb.ca/content/gnb/en/news/news_release.2016.03.02280.html.

essential to their access and functioning. According to Statistics Canada's *Labour Force Survey*, this industry employs about 86,000 workers, accounting for 11% of business sector employment in the region and 8% of business sector GDP. APEC's Major Projects Inventory projects \$13 billion in spending on major investment projects across the Atlantic region in 2016.¹³³

Having standardized **occupational health and safety** (OH&S) legislation would lead to more standardized OH&S regulations. This would help firms across the region who often strive for a company or region-wide approach to safety. It can also be a challenge for construction firms working with sub-contractors in different provinces who are used to or only want to meet provincial standards. Some of the differences in OH&S standards are reported to be relatively minor.

For construction firms operating across the Atlantic region, the lack of harmonization of safety standards and training were significant costs and barriers.

For construction firms operating across the Atlantic region, the lack of harmonization of safety standards and training were significant costs and barriers. Differences in training standards can be important as unionized construction workers are highly mobile, particularly in some trades.¹³⁴

Provincial construction safety associations can issue a **certificate of recognition** (COR) to firms that meet the requirements. The COR is a widely accepted standard of safety certification. Having a regional COR, or having a standardized COR renewed at the same time, would help firms operating in multiple Atlantic provinces.

Standardized **training** would also be of value. This has been a particular issue with regard to fall arrest and confined spacing training with Newfoundland and Labrador not recognizing such training from other provinces. This requires workers certified in other provinces to be re-certified by province-approved trainers. This increases the costs to the firm, delays construction work and causes frustrations for workers who feel they have to re-do a two-day training course for relatively minor differences in safety standards.

Progress is being made. The construction safety associations of Nova Scotia, New Brunswick and Newfoundland and Labrador signed a Training Equivalence Agreement in February 2015, agreeing to work together to develop curriculum for OH&S training such that the training delivered by any of the three associations will meet or exceed the Provincial training standards of all three jurisdictions.¹³⁵ And on May 16, 2016, the four

¹³³ APEC (2016). Major Projects Inventory 2016: Newfoundland Slows While the Maritimes Surge Ahead. *Atlantic Report*, Spring. Halifax: APEC.

¹³⁴ Chaundy, David (2002). Skilled Trades and the Offshore Industry: A Skills Survey of Selected Construction Trades in Nova Scotia. Halifax: APEC and Chaundy, David and Brannon, Patrick (2013). *Pilot Project to Estimate the Labour Requirements for Major Projects in Atlantic Canada: Final Report*.

¹³⁵ <http://constructionsafetyns.ca/Communications/News/tabid/188/language/en-US/Default.aspx>.

Atlantic Premiers agreed to work towards “mutual recognition of targeted occupational health and safety equipment and safety training standard.”¹³⁶

Differences in rules regarding provincial **Workers’ Compensation Boards** (WCB) were also raised by interviewees. The rules are not always clear to firms. For example, if an employee in New Brunswick visits a work site in Nova Scotia, are they operating under New Brunswick or Nova Scotia WCB rules? Nova Scotia’s system where premium payments are based on actual employment rather than estimates are preferred. Another firm questioned why their office staff had to pay WCB premiums and not just those who work outside and in their plants.

On May 16, 2016, the four Atlantic Premiers agreed to adopt the Canada Revenue Agency’s “One Business One Number system for Workers’ Compensation Boards and Commissions.”¹³⁷ Full use of the Business Number in all four provinces will be in place by end of 2017. The Business Number simplifies interactions with all levels of government (federal, provincial and municipal) by allowing information to be safely and securely shared with other participating partners. This reduces the need for re-entering business information when completing common registrations. Nova Scotia adopted the Business Number several years ago.

Corporate registration

More than 2,700 firms operate in more than one Atlantic province. Several firms mentioned that the need to register and maintain annual corporate filings in each province was an additional cost to operating in multiple provinces. One small business had to set up five different companies for its five operating locations (two for one Atlantic province and one each for the three other provinces) requiring five registrations with the associated application costs and different requirements, and five annual renewals. The costs are borne by the business directly as well as in their legal fees. One estimate puts the additional costs in the tens of millions annually for Canada as a whole, in addition to acting as a deterrent to businesses expanding across Canada.¹³⁸

One small business had to set up five different companies for its five operating locations across the four Atlantic provinces, requiring five registrations with the associated application costs and different requirements, and five annual renewals.

The business community nationally has long requested progress on this file but governments have been slow to respond. The AIT contained specific commitments regarding the harmonization of extra-provincial corporate registration and Premiers directed their ministers for internal trade in August 2010 to “reconcile extraprovincial corporate registration and reporting requirements by December 31, 2010.”¹³⁹

¹³⁶ <http://www.cap-cpma.ca/images/CAP%2028%20Communique%20FINAL-EN.pdf>

¹³⁷ <http://www.cap-cpma.ca/images/CAP%2028%20Communique%20FINAL-EN.pdf>

¹³⁸ Schwanen, Daniel and Chatur, Omar (2014). *Registering in Harmony: The Case for Pan-Canadian Corporate Registration*. Toronto: C. D. Howe Institute.

¹³⁹ http://canadaspremiers.ca/phocadownload/newsroom-2010/prem_working_to_sustain_economic_recovery.pdf

Mutually recognizing corporate registrations from other provinces and sharing the information as required with other provinces is one possible solution. New Brunswick and Nova Scotia, for example, recognize each other's corporate registrations, but this agreement does not harmonize information requirements or mandate sharing information.¹⁴⁰ Alternatively, other analysts have advocated creating a pan-Canadian system in which corporations need only "register once" to do business across the country and instituting a single business numbering system.¹⁴¹ In the absence of concrete steps to achieve a Canadian system, Atlantic governments could work to achieve a regional solution. However, there are costs required to create a standardized IT system. Provinces use different terminology and may have specific requirements for information that are used by other government departments; these issues also need to be addressed.

Other Issues Affecting Multi-Jurisdiction Firms

Other regulatory barriers facing multi-jurisdiction firms that were highlighted during APEC's business interviews were raised by firms in specific industries.

The need to apply for multiple **food permits and liquor licenses** for each location in each province was raised as an unnecessary requirement. The food services industry is an important part of Atlantic Canada's economy with food purchased from restaurants accounting for 3-4% of spending by Atlantic households. According to Statistics Canada's *Labour Force Survey*, this industry employs about 77,000 workers, accounting for 10% of business sector employment in the region and 3% of business sector GDP. Total Atlantic spending at food service and drinking establishments in 2015 amounted to \$3.6 billion. While 98% of Atlantic businesses in the accommodation and food services industry only operate in one province, multi-jurisdiction firms account for 20% of Atlantic employment in this industry.

Restaurants have to apply for food permits and liquor licenses for each location that they operate and these differ by province.

Governments and industry have worked to create the Food Retail and Food Services Regulation and the Food Retail and Food Services Code.¹⁴² Despite these national initiatives, restaurant and food service inspection across Canada is generally carried out by provincial governments, municipalities or regional health authorities.¹⁴³ Restaurants have to apply for food permits and liquor licenses for each location that they operate and these differ by province. Establishing processes to create more standardized approaches in the Atlantic region and allowing for mutual recognition would assist business operating in multiple jurisdictions. Food regulations continue to change with new

¹⁴⁰ Schwanen and Chatur (2014).

¹⁴¹ Schwanen and Chatur (2014).

¹⁴² http://foodsafety.ca/resources/Food_Services_Code2004.pdf.

¹⁴³ <http://www.inspection.gc.ca/food/retail-food/restaurants-food-services/eng/1300142045999/1300142114135>.

regulations required to bring into force the Safe Food for Canadians Act passed in November 2012.¹⁴⁴

Differences in provincial approaches to **recycling and environmental standards** more generally were raised as issues. Provinces have different recycling fees and programs that may be managed by the industry or sellers of the products. When these programs differ by province, it can increase the costs to firms to accommodate the different programs and fees in their IT systems. It can also lead to differences in how product prices are quoted, adding to their marketing costs. For example, New Brunswick passed legislation in October 2015 to establish an electronics recycling program but the Retail Council of Canada has expressed concerns about the plan which will hide the recycling fee within the quoted product price, requiring sellers to quote different prices in New Brunswick than other jurisdictions where there is a more harmonized approach.¹⁴⁵ The Electronic Products Recycling Association, for example, operates regulated recycling programs in eight provinces across Canada.¹⁴⁶

Common and harmonized standards and programs reduce costs to business and ultimately to consumers. The Canadian Stewardship Services Alliance, for example, which operates packaging and printed paper recycling solutions in several provinces, is introducing new systems to “eliminate the duplication of infrastructure, caused by having multiple provincial organizations managing multiple programs.”¹⁴⁷ By creating one organization to manage multiple programs through a common infrastructure, it aims to eliminate the duplication of “efforts, investments, governance, administration, IT, finance, communications and market development ... which cost business dearly in resources, time and money.”¹⁴⁸

The issue of **gasoline price regulation** was also raised during the business interviews. Spending on gasoline amounts to 5-7% of household budgets in the Atlantic provinces. The four Atlantic provinces each have their own systems for regulating prices, with regulated prices changing weekly, bi-monthly and monthly in different provinces.¹⁴⁹ Regulations extend not just to prices but to promotions and other business issues. Moving to one Atlantic system was perceived as making “a big difference” although it would depend on which model was adopted. Using a standardized regional formula would also reduce the costs to government in implementing the regulation.

¹⁴⁴ <http://www.inspection.gc.ca/about-the-cfia/transforming-the-cfia/action-plan/eng/1366921334607/1376491642277>.

¹⁴⁵ <http://www.cbc.ca/news/canada/new-brunswick/retail-electronics-recycle-new-brunswick-1.3236456>.

¹⁴⁶ <http://epra.ca/>.

¹⁴⁷ <http://www.cssalliance.ca/>.

¹⁴⁸ <http://www.cssalliance.ca/about-the-canadian-stewardship-services-alliance/list-of-benefits>.

¹⁴⁹ <http://www.consumerscouncil.com/index.cfm?id=13904>.

Provinces regulate gasoline prices to “reduce price volatility – high up or down price changes – and to protect small independent retailers.”¹⁵⁰ But the four Atlantic provinces, along with Quebec, are the only jurisdictions in North America to do so.¹⁵¹ One interviewee urged Atlantic governments to clarify the objectives for such regulation; assess whether it is working and if the benefits outweigh the cost; and examine if there are better ways to achieve such objectives.

5.3 Opportunities to Facilitate Labour Mobility

Many occupations have standards set and regulated by professional or occupational bodies, such as engineers, accountants, and lawyers. Some workers may need a license to work while in other fields certifications communicate a worker’s consistency with industry-approved standards for education and practice. These regulatory bodies are often specific to a province as provinces have the responsibility for labour markets and the regulation of occupations. In 2001, there were an estimated 1.7 million workers in regulated occupations and professions, accounting for 11% of the workforce.¹⁵² The largest groups were teachers, nurses and health professions, engineers and engineering technicians, accountants and lawyers. These numbers do not include construction and other trades: in 2011, occupations usually requiring a trade certificate accounted for 8% of employment in Canada.¹⁵³

As individuals in regulated occupations need to be licensed in the provinces where they work it can create extra costs, delays and sometimes additional challenges when they move to another province. Individuals may face lengthy application processes, additional examinations and training requirements.

For several Atlantic firms, some of their staff work in multiple provinces, using their specialized expertise. These workers therefore need to obtain **provincial certification or licences in multiple Atlantic provinces** – increasing costs to their employer. This may be done on an ad hoc basis but for some staff, they must maintain multiple provincial licenses at all times. This issue partly reflects the small size of the Atlantic market. Firms in Ontario may be able to house their specialists all within one province; in Atlantic Canada, the market may not be big enough to justify a specialist in each Atlantic province.

¹⁵⁰ <http://www.consumerscouncil.com/index.cfm?id=13904>.

¹⁵¹ For Canada: <http://www.consumerscouncil.com/index.cfm?id=13904>. For US, “Federal and state governments do not regulate the price of crude oil or refined products” Q&A 22 at <http://ca.practicallaw.com/9-525-1545?source=relatedcontent#a990576>. For a list of other countries that regulate prices see <http://www.globalpetrolprices.com/articles/42/> and for a more detailed discussion of global gasoline pricing see <https://www.giz.de/expertise/downloads/giz2012-en-ifp2010.pdf>.

¹⁵² Grady, Patrick, and Macmillan, Kathleen (2007). Inter-provincial barriers to labour mobility In Canada: Policy, knowledge gaps and research issues. *Industry Canada Working Paper Series*, 2007-10: Ottawa: Industry Canada.

¹⁵³ <http://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-012-x/2011002/tbl/tbl05-eng.cfm>.

Despite the progress made in Canada towards full labour mobility (see Appendix B), Atlantic firms still report issues. For Atlantic businesses that move workers across provincial borders or have employees do work for clients in other provinces, about half reported a barrier to labour mobility. In some cases, the barriers were relatively modest, requiring workers to apply for recognition in another province and pay the appropriate fees. Some companies have workers certified or licensed to work in 2-4 provinces because they have specialist expertise that are used to assist clients across the Atlantic region. Coordinating renewal dates and application forms would be of benefit to some employers. Occupations where the barriers were modest or non-existent included engineers, accountants, insurance brokers, registered nurses and licensed practical nurses.

For Atlantic businesses that move workers across provincial borders or have employees do work for clients in other provinces, about half reported a barrier to labour mobility.

For other firms, the issues were more substantial. For example, **lawyers** are only licensed to practice for up to 100 days in another province.¹⁵⁴ However, even five minutes dealing with a telephone call or e-mail counts as a full business day, so this limit can be quickly reached on a particular file. This requires law firms to carefully monitor their activities. While a lawyer can obtain a license for another province, it can take months to do so.

The issues related to the mobility of construction workers, in regard to their **safety training** in Newfoundland and Labrador were already discussed in Section 5.3.

A couple of firms raised issues regarding the Employment Insurance (EI) system limiting the supply of workers, particularly in rural communities.

There were also issues raised related to international labour mobility. For example, Canada has higher health and safety training requirements so foreign survival training for the offshore is not regarded as equivalent, requiring foreign workers to be re-certified. One firm had issues bringing in temporary foreign workers on a timely basis, for example, to access specialized workers for a short-term repair contract; others expressed concern about some of the recent changes to the Temporary Foreign Worker Program. Another firm also indicated they had challenges bringing in specialized international workers as immigrants while one business reported they had difficulties getting international students transitioned into permanent residency.

5.4 Opportunities to Reform Public Procurement

Atlantic governments (provincial and municipal) spend about \$13 billion each year on goods and services with a further \$3 billion on capital expenditure (Tables 5.2 and 5.3).

¹⁵⁴ <https://www.lawsociety.bc.ca/page.cfm?cid=1578&t=National-Mobility-Agreement-in-effect-July-1>.

Table 5.2 Atlantic Governments Spend \$13 billion on Goods and Services**Government use of goods and services, 2014 (\$millions)**

Type of Government	NL	PE	NS	NB	Atlantic
Federal	n.a.	n.a.	n.a.	n.a.	n.a.
Provincial	1,175	215	1,836	1,674	4,900
Municipal	227	48	632	461	1,368
Education	158	56	535	189	938
Health and social services	825	210	842	917	2,794
Government business enterprises	804	127	622	1,830	3,383
Subtotal (excluding federal government)	3,189	656	4,467	5,071	13,383
Total	n.a.	n.a.	n.a.	n.a.	n.a.

Note: There are no school boards in New Brunswick. Federal use of goods and services not available by province.
Source: Statistics Canada Canadian Government Finance Statistics, APEC

Table 5.3: Atlantic Government Capital Spending Exceeds \$3 billion Annually**Government fixed capital expenditures, 2014 (\$millions)**

Type of Government	NL	PE	NS	NB	Atlantic
Federal	53	6	134	108	301
Provincial	239	42	328	503	1,112
Municipal	177	50	220	188	634
Education	237	26	188	141	592
Health and social services	162	36	116	126	440
Government business enterprises	148	24	58	323	553
Subtotal (excluding federal government)	963	178	909	1,280	3,330
Total	1,016	184	1,043	1,388	3,630

Note: Fixed capital expenditures includes construction and machinery and equipment but excludes repair expenditures.

Source: Statistics Canada Capital and Repair Expenditure Survey, Canadian Government Finance Statistics, APEC

Based on government statistics, APEC estimates that annual government procurement in Atlantic Canada is worth at least \$6 billion, although it is not possible to provide precise, comparable estimates for each province.¹⁵⁵ It is also not clear if these amounts exclude purchases that are below the thresholds specified in the Atlantic Procurement Agreement (see Appendix B). Either way, governments in the region are spending

¹⁵⁵ The Newfoundland and Labrador Government Purchasing Agency's 2012/2013 annual report highlighted the province spends almost \$2 billion annually buying goods and services, including \$900 million through its online (Oracle) purchasing module (http://www.gpa.gov.nl.ca/publications/gpa_annual_report_2012_13.pdf, p. 10). Prince Edward Island spends \$100 million annually on goods and services, excluding the Department of Health and construction (http://www.gov.pe.ca/photos/original/suppliers_guide.pdf, p. 2). According to a 2013 Supplier Development brochure, Nova Scotia spends \$2 billion annually on goods and services and construction, including \$1 billion for the MASH sector (http://www.novascotia.ca/tenders/media/32559/supplier_development_2013_brochure.pdf, p. 1). Based on the New Brunswick Department of Government Services 2014/2015 annual report, they spend \$1.6 billion through their procurement process - including \$478 million on procured goods and services (<http://www.gnb.ca/legis/business/currentsession/58/58-1/LegDoc/Eng/November58-1/GovServices14-15.pdf>, p. 12).

billions of dollars every year, beyond what they spend on staff salaries and benefits and debt serving costs, although these statistics do not indicate what proportion of these purchases are made from firms in other provinces.¹⁵⁶

Only a small proportion of the firms interviewed for this research had or continued to bid on government procurement contracts. Three issues were raised during the interviews.

Under the Atlantic Procurement Agreement, which includes provinces; municipalities, academic institutions, school boards and health authorities (the MASH sector); and Crown Corporations, parties are not allowed to favour contractors or suppliers from their own province in tenders above specified thresholds. Therefore it is not surprising that there was only one specific example shared of **explicit local preferences**. This was in regard to Cape Breton Regional Municipality where local firms (i.e. those paying commercial taxes in the municipality) qualify for a 5% price preference over suppliers from outside the municipality.¹⁵⁷ Some provincial contracts do not cover out-of-province travel costs, which provides an implicit cost advantage to local firms.

Nevertheless, at least two respondents indicated that there was still a **perceived preference in favour of local bidders**. For one firm, this was apparent during the qualification process where there were lots of questions about not being a local firm (due to its head office being in another province). The potential bidder had to explain how long it had operated in the province, and how many employees it had in the province. Even when they won a contract, one firm noted that it faced strong media and public reaction as it was perceived to be going to an out-of-province firm. By contrast, another respondent felt that there was sometime a preference to award a contract to out-of-province suppliers rather than supporting local firms.

Finally, one business leader pointed to general inefficiencies in the tendering process due to several, relatively small, tenders from different organizations (even within the same province), each with slightly different product specifications. These different specifications may reflect historical purchasing patterns or preferences of the contracting authority, but they were perceived as not having a strong economic rationale. If the product requirements were standardized, suppliers would benefit from economies of scale in responding to the bids. For example, they would not have to hold so many

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¹⁵⁶ Statistics Canada data indicate that government purchases account for 6% of all interprovincial trade in Canada but these data do not indicate the proportion of procurement that occurs across provincial borders: Tebrake, James (2016). *Interprovincial Trade Flows: Presentation to the Senate Committee on Banking, Trade and Commerce*. http://www.parl.gc.ca/content/sen/committee/421/BANC/Briefs/2016-03-09BANC_InterprovincialTradeFlows_E.pdf.

¹⁵⁷ Cape Breton Regional Municipality (2011). *Procurement Policy*, p. 16. <http://laserfiche.cbrm.ns.ca/WebLink8/1/doc/25004/Page1.aspx>. Under the Atlantic Procurement Agreement, municipal tenders valued at under \$10,000 for goods, \$50,000 for services and \$100,000 for construction are exempt from the requirements and therefore are eligible to apply such a local bidder preference for contracts under this amount.

different products in their inventory. This would result in lower overall procurement costs. The tendering authorities could go even go one step further and pool their **standardized tenders** into one larger contract. According to the Council of Atlantic Premiers, the joint purchase of school buses is an excellent example of the benefits of **joint procurement**. Atlantic Canada currently saves \$30,000 per bus purchased, resulting in \$7 million in savings for the region in 2012.¹⁵⁸ Another interviewee also thought there were further opportunities for joint procurement.

The three Maritime provinces have agreed to take further steps to reduce the complexity in bidding on provincial contracts in the region. Each province currently has different documents and procedures for procurement. The provinces have agreed to move to common procedures and documents, which will also facilitate joint procurement.¹⁵⁹ Further research would be required to estimate the potential savings from more open procurement and the mechanisms through which this could be achieved. Similarly, additional research is needed to estimate the scope for standardizing tenders and joint procurement and the potential economic impact of such policies.

¹⁵⁸ <http://www.cap-cpma.ca/key-initiatives/trade-and-procurement/>.

¹⁵⁹ <http://novascotia.ca/regulatoryopportunity/plan-of-action.asp>.

Chapter 6

Summary and Conclusions

Regulations are an important and pervasive part of our everyday life. While intended to promote legitimate public policy goals such as those relating to health, safety and the environment, regulations are not always ideally designed or implemented, or they may vary from one place to another, impeding trade. As a result, regulations can unnecessarily increase the costs and risks to business, reducing the competitiveness of firms and weakening the economy.

This report documents the importance of interprovincial trade in Atlantic Canada, highlighting the key goods and services that cross provincial boundaries. It provides a synopsis of the key trade and regulatory barriers facing Atlantic firms based upon a review of the literature and interviews with businesses that operate in multiple Atlantic provinces. Drawing on these business interviews APEC identifies specific opportunities for reform to reduce the regulatory burden on Atlantic firms.

The Rationale for Atlantic Regulatory Reform

Atlantic Canada is a small market that is further fragmented by provincial borders and differing standards and regulations, placing its firms at a competitive disadvantage relative to firms in larger provinces. For example, a business in Ontario can access a market six times larger within one set of provincial regulations; to reach all of Atlantic Canada an Atlantic firm must comply with four sets of provincial standards and regulations to tap into a market that is 15% of the size of Ontario.

Interprovincial trade barriers arise from three main sources: natural barriers, such as distance; barriers due to preferences favouring local producers (such as local content rules, local resource processing and preferences in government procurement); and differences in regulations among jurisdictions, which may affect interprovincial trade flows, multi-jurisdiction firms and interprovincial labour mobility. In addition, all firms face the cost of compliance with government regulations, even within their own jurisdiction.

The impact of these interprovincial trade barriers on business operations can include increased costs to manage different provincial standards; reduced efficiency, because they cannot optimize their deployment of equipment, staff or products because of different provincial regulations; lower revenue due to market barriers; impeded client service because specialized staff are not approved to serve clients in other provinces; and

reduced investment, because of uncertainty created by the regulatory environment. Government costs may also be higher than necessary to maintain these different provincial regulations.

Reducing these barriers and reforming the regulatory environment has the potential to boost the region's output, which is especially important given the region's economic, demographic and fiscal outlook. By reducing regulatory compliance costs, Atlantic firms will face lower costs and have more resources to invest in developing new products and markets.

Interprovincial trade is particularly important to Atlantic Canada's economy, accounting for 59% of GDP, compared with 39% nationally. Atlantic Canada's total interprovincial trade (i.e., exports plus imports) amounts to \$65 billion, supporting about 1 in 6 jobs.

The estimated trade costs, arising from barriers which make it more difficult to trade in one direction than another, are also higher in the Atlantic provinces than nationally. Reducing these internal trade barriers across Canada is therefore particularly important for the Atlantic region.

Quantifying the economic cost of interprovincial trade barriers is challenging. However, recent empirical research suggests the long run gains in Atlantic Canada's GDP from removing all barriers to trade among all ten Canadian provinces, could be as high as 7.6% of GDP (\$8.5 billion). A 10% reduction in trade costs among the three Maritime provinces alone is also estimated to boost their GDP by a combined 1.4%.

Guidelines for Regulatory Reform to Help Atlantic Firms

Regulatory reform is a challenging undertaking due to the multiple regulations affecting Atlantic businesses and the fact that there are multiple regulators involved (including federal, provincial and municipal governments as well as non-government regulators). Different options for regulatory reform, such as mutual recognition or harmonization, need to be evaluated. While some reforms may have clear benefits for all stakeholders, such as simplifying regulations that are unnecessarily complex, standardizing language and processes, or removing outdated regulations, others may have uneven impacts. Quantifying the economic gains from specific reforms can be difficult, but is especially important when there are government revenue or expenditure implications.

In terms of improving the regulatory environment, Atlantic businesses want a level-playing field, consistency among jurisdictions and consistent application of regulations. Certainty and simplicity are also important to reducing business risk.

Atlantic regulatory reform should prioritize issues with the largest economic impact, including areas with broad economic reach and industries with the largest spillovers to other sectors. An effective and comprehensive regional trade and cooperation agreement could help advance regulatory alignment within the region. As the regulatory issues facing Atlantic firms extend beyond regional boundaries, governments should also pursue regulatory reform and alignment nationally and internationally.

Opportunities for Atlantic Regulatory Reform

Atlantic business leaders pointed to numerous regulatory issues that add to their costs and impede their competitiveness. APEC recommends that regulatory issues that affect a larger segment of the economy be prioritized over individual industry-specific issues as, in general, they are likely to have the broadest economic impact.

The Atlantic provinces export about \$10 billion worth of goods and services to other Atlantic provinces. In terms of interprovincial trade, APEC recommends prioritizing regulatory differences and barriers that affect the trucking industry and the production and sale of alcoholic beverages.

Multi-jurisdiction firms – those that operate in more than one Atlantic province – account for 43% of total business sector employment within the region. In terms of issues affecting these firms, APEC recommends achieving greater alignment in labour standards, safety standards and corporate registrations.

Atlantic provincial and municipal governments spend about \$16 billion annually on goods, services and capital expenditures. Business interviews point to opportunities for greater openness in government procurement and the potential for savings through greater standardization and joint procurement.

In general labour mobility issues were not identified as large barriers, although there are additional costs required for individuals in regulated occupations who need to be licensed in multiple provinces to serve their Atlantic clients. The regional recognition of safety training and restrictions on lawyers working in other provinces were identified as issues but the interview sample size for this research was not large enough to cover all regulated occupations.

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