

# **What Does TILMA Mean for Saskatchewan?**

**Some Observations to the Saskatchewan Agrivision Corporation Inc.'s Workshop on TILMA, Saskatoon Inn, Saskatoon, June 26, 2007.**

**By Graham Parsons  
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Vice President Clifton Associates Ltd.**

# CANADA 2000

Towards a  
New Canada

CANADA WEST FOUNDATION

## A WESTERN ECONOMIC COOPERATION AGENDA: Strengthening the Economic Union Within Western Canada

### INTRODUCTION

This study is a discussion of ways in which the federal and provincial governments in Western Canada can cooperate to improve prospects for economic growth and development. It is NOT a discussion of political integration or the formation of one western government. It is a discussion of how a common western cooperation agenda applied within existing federal and provincial political jurisdictions could improve the efficiency of the public sector and the competitiveness of western Canada's economy.

### BACKGROUND

Free trade areas, regional trading blocs and common markets have become a reality of the new global economy. While much of the world moves towards more liberalized trade, the Canadian economy remains balkanized through a large number of federal and provincial trade, regulatory and administrative barriers. These barriers restrict the development of regional economies within Canada, reduce their ability to compete internationally and limit national growth.

In spite of the legal protections in Sections 91 and 121 of the 1867 Canadian Constitution, obstacles to provincial economic cooperation have been set in place by both federal and provincial governments and have been remarkably difficult to remove or change. These barriers to interprovincial trade have long been recognized and studied. For over a decade many governmental and non-governmental reviews of the economy have identified internal protection as a major constraint on the economic development of Canada and its regions. These include the *Macdonald Royal Commission into the Economic Union and Development Prospects for Canada*, current western provincial economic development strategies, Western Premiers' Conferences, the Conference Board of Canada, the C.D. Howe Institute, the Canadian Manufacturers Association, the federal Steering Group on Prosperity and the Canada West Foundation.

Federal and provincial governments have regularly and routinely reaffirmed their commitment to strengthening the Canadian common market through resolutions, task forces, and agreements. In spite of these efforts, real progress in reducing domestic barriers to advance cooperative economic development remains painfully slow.

*This report was written by Graham Parsons, Chief Economist for the Canada West Foundation, for the Canada 2000 Task Force which is directed to examine alternative approaches to the renewal of Canada's federal system and the development of a viable future-oriented economy. The Task Force consists of five prominent western Canadians with experience in business, government, and the academic communities. The members of the Task Force are: David Elton, President, Canada West Foundation, Calgary; Gordon Gibson, President, GFG Enterprises Ltd., Vancouver; Jim Gray, President, Canadian Hunter Exploration Ltd., Calgary; Honourable Fred Johnson, former Chief Justice, Supreme Court of Saskatchewan; and I.H. Asper, CEO CanWest Communications, Winnipeg.*

*Because of the independence given the author in undertaking this project, the opinions and recommendations expressed within this document are those of the author and do not necessarily reflect the opinions of Canada West Foundation's Council, its members, or its contributors.*

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June 1993  
ISBN# 0-919251-09-9

# June 1993 A Western Economic Cooperation Agenda

## Based upon:

- Regulatory, Licensing and Professional Standards
- Removing Fiscal Duplication and Competition
- Ending Administrative Duplication in Public Services
- Procurement Reform in Federal, Provincial and Municipal Governments
- Provincial and Regional Economic Cooperation
- Private Sector Strategic Alliances
- Metropolitan Cooperation

# Since Then!

- **Globalisation Continues with Freer Canada US Trade (from CUSTA to NAFTA)**
- **Regional Trade Agreements Around the World (Expanded EU, CARICOM, APEC, etc. etc)**  
Big Nations and Small nations some smaller than SK
- **Agreement on Internal Trade in Canada**
- **Now TILMA**
  
- **A Debate rages on! Is this good or bad?**
- **Vested Interests uniting against change!**
- **What does it mean for Saskatchewan?**

# The Federal, Provincial Territorial Agreement on Internal Trade

## Provided For:

- Principles for free Trade in Canada
- Rules governing Trade in 10 Sectors
- Rules for Disputes
- Workplan for Negotiations

## Principles

- No New Barriers to Internal Trade
- Treat Persons, Goods and Services Equally Regardless of Origin
- Reconcile and Harmonize Standards

# Estimated of Costs of Trade Barriers 1997

## Government of Canada 1997

- 1% GDP or \$7 Billion Annually
- In SK = equivalent to \$343 Million

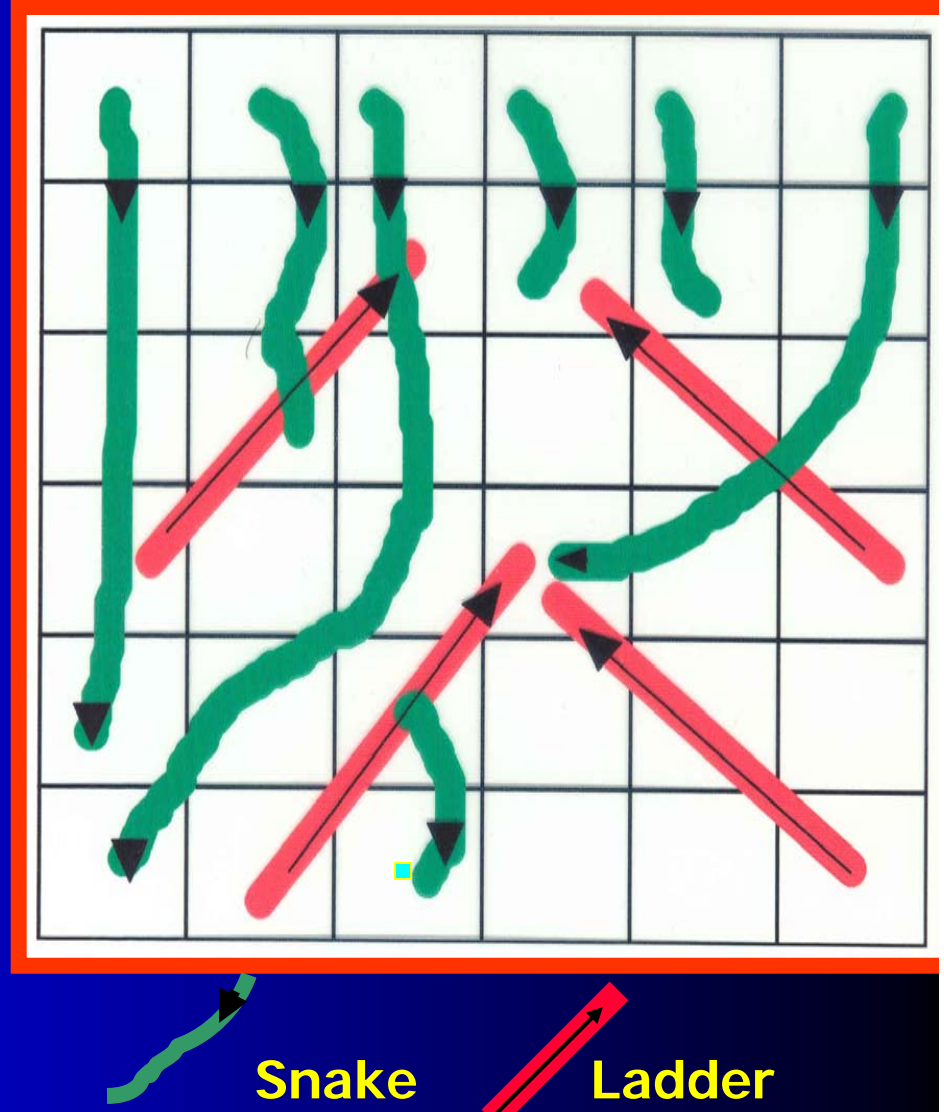
## Canadian Chamber of Commerce

- 10% increase in Internal Trade would create 200,000 jobs
  - In SK = equivalent to about 6,000 jobs
- 2007 Conference Board Report 4,000 jobs**

# After 13 Years Problems for the AIT

- Bureaucratic Maze of Committees and Sector Panels
- After 11 Years AIT Didn't Work (2006 AIT Outstanding Obligations Report)
  - Of 21 Outstanding Items
  - 67% "In Progress"
  - 25% Never Started
  - 8% Completed?
- Unworkable Dispute Resolution
- Massive Exclusions

## Snakes and Ladders



# Western Provincial Procurement Exclusions from the AIT, July 18<sup>th</sup>, 1994.

<p>BC Assessment Auth.            BC Buildings Corp.            BC Financial Services Corp.            BC Ferry Corp.            Victoria Line Ltd.            BC Housing Manag. Comm.            BC Petroleum Corp.            BC Rail            BC Systems Corp.            BC Trade Develop. Corp.            BC Transit            Provincial Capital Comm.            BC Trans. Financing Auth. inc.            Highway Constructors Ltd.            Columbia Power Corp.            Forest Renewal BC            Pacific National Exhibition.</p>	<p><b>NONE</b></p>	<p>Agricultural. Credit Corp.            Agricultural. Dev. Fund Corp.            Municipal Financing Corp.            New Careers Corp.            Prairie Agricultural. Mach. Inst.            Sask. Comm. Network            Sask. Crop Ins. Corp.            Sask. Liquor and Gaming            Sask. Grain Car Corp.            Sask. Gov. Printing Comp.            Sask. Growth Fund Corp.            Sask. Housing Corp.            Sask. Municipal Board            Sask. Research Council            Sask. Wetland Cons. Corp.            Crown Investments Corp.            Sask. Econ. Development Corp.            Sask. Energy Inc.            Sask. Forest Products. Corp.            Sask. Gaming Corporation            Sask. Government Insurance            Sask. Opportunities Corp.            Sask. Power Corporation            Sask. Telecommunications            Sask. Transportation Company            Sask. Water Corp.            Liquor Board Superann. Comm.            Liquor &amp; Gaming Licensing Comm.            Sask. Arts Board            Sask. Pension Plan            SPC Superann. Board            Western Development Mus. Board            Workers' Comp. Board (Sask.)            Workers' Comp. Superann. Board</p>	<p><b>NONE</b></p>
<p><b>BC</b></p>	<p><b>AB</b></p>	<p><b>SK</b></p>	<p><b>MB</b></p>

# NOW TILMA

## B.C. Alberta Trade, Investment and Labour Market Agreement

- **Labour Mobility**
- **Government Procurement**
- **Standards & Regulations**
- **Business Subsidies**
- **Transportation**
- **Investment**
- **Other Key Agreements**
  - Memorandum of Understanding on Energy Cooperation and Regulatory Harmonization, May 2004
  - Memorandum of Understanding on Charter Buses, April 2006
  - Memorandum of Understanding on Post-Secondary Education

**Comprehensive** - Applies to legislation, regulations, standards, policies, procedures, guidelines, etc. as they affect trade, investment and labour mobility

**Exceptions Transparency Dispute Resolution Panel**



# TILMA – Substantial Exclusions

## General

- Aboriginal peoples – Water – Water services and investments - Taxation - Revenue generation
- Regulated rates for public good or public interest - Social policy (labour standards and codes, minimum wages, employment insurance, social assistance benefits and worker's compensation)
- Disposition of rights - exploration, development, management, conservation of energy or mineral resources
- Renewable and Alternative energy - Management and disposal of hazardous and waste materials
- Disposition of harvesting rights - management and conservation of forests, fish and wildlife

## Alberta

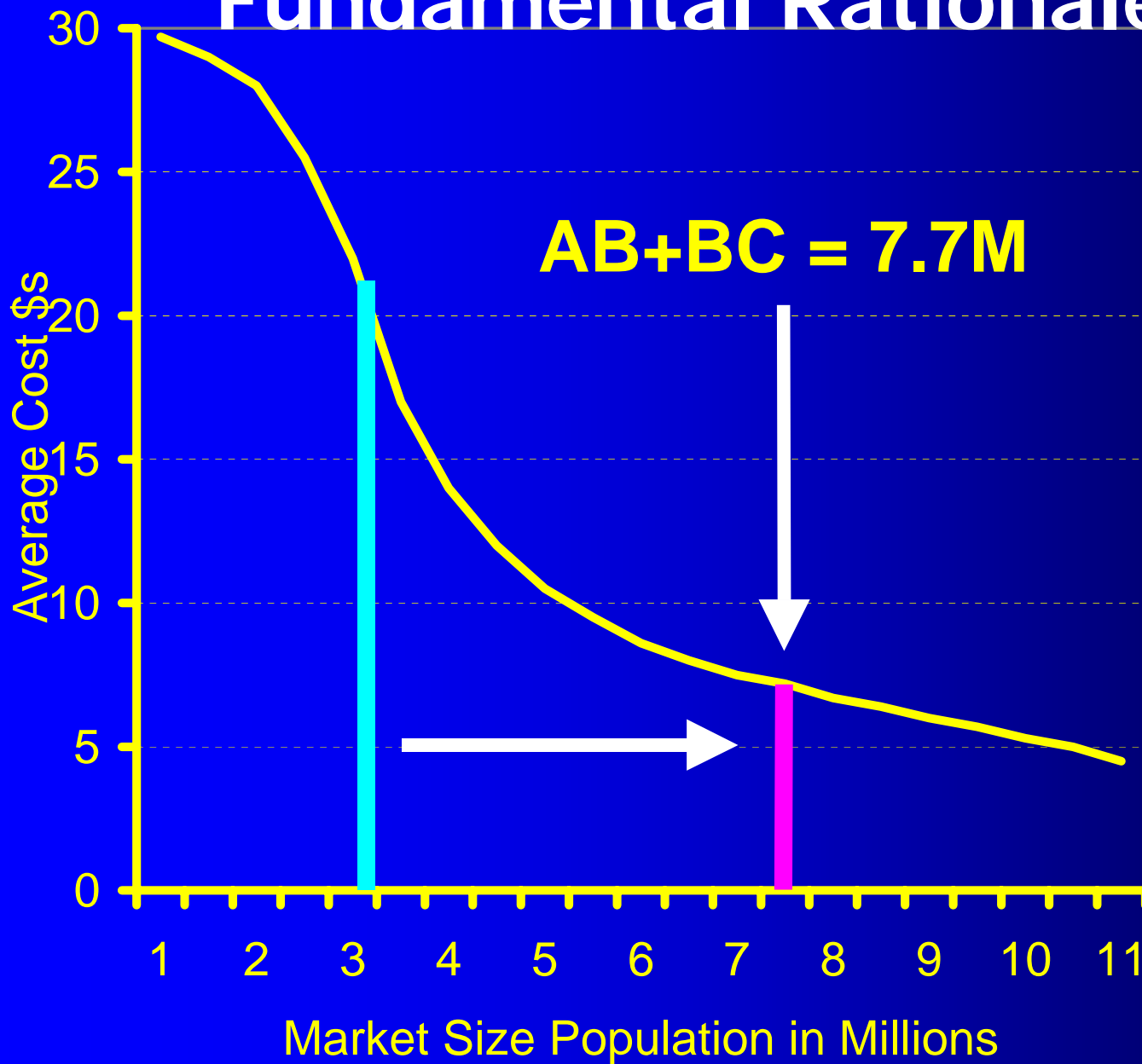
- In agriculture, measures on regulated marketing and supply management related to poultry, dairy and egg production.
- Access and ownership of Power Purchase Arrangements under the Power Purchase Arrangements Regulation.
- The requirement that funds be maintained in an Alberta-based account under the Fair Trading Act and associated regulations.
- Residency requirements under the Fisheries (Alberta) Act and the Wildlife Act.

## British Columbia

- Regulatory measures under the Natural Products Marketing (BC) Act which restrict trade or investment in agricultural products or production.
- Measures to ensure adequate insurance coverage for commercial vehicles.
- Measures relating to the use of dams, reservoirs and generation facilities, provided that these do not prevent access to electricity transmission facilities.
- Measures to ensure domestic electricity needs are met.
- Provisions of the BC Hydro Public Power Legacy and Contract Act.

# Fundamental Rationale for TILMA

or for any  
Trade  
Agreement



## Why?

- Efficiency
- Productivity
- Lower Costs
- Lower Prices
- Increased Competition
- Lower Cost for Gov
- Lower Taxes

# **Why the Pre-Occupation with Trade Agreements?**

**Because they improve standards of living, create Opportunity!**

**Should Saskatchewan Join TILMA?**

**Yes!**

**But we should be aware of the realities.**

# Some Items We Like to Forget!

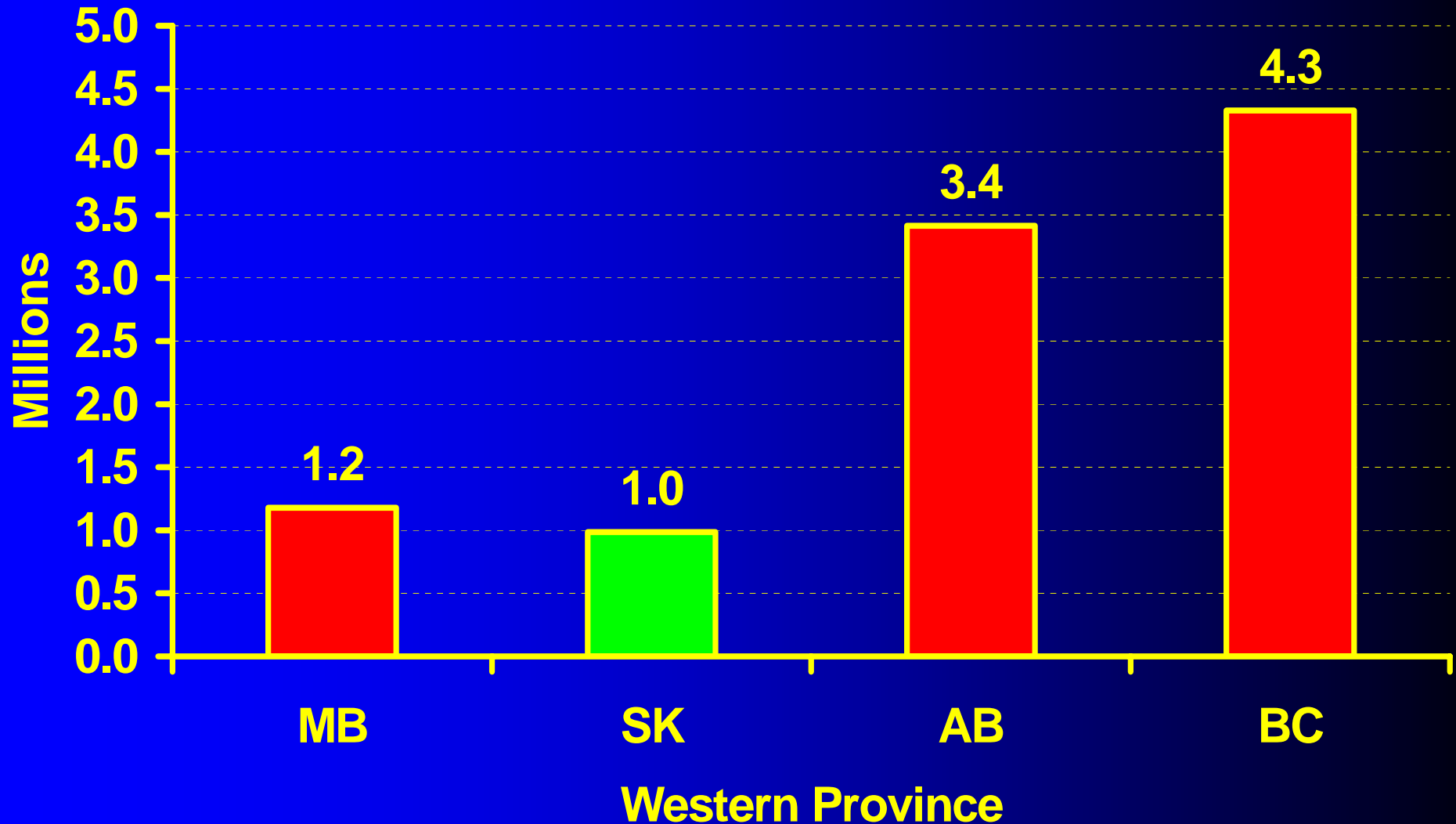
## 1. Economic Realities

- Trade is Trade is Trade is Trade
- No Difference between international or domestic trade
- $GDP = C + I + \text{Trade (Ex-Imp)}$
- Effects on the economy are the same
- Gross Domestic Product increases when the trade balance improves. That is when exports exceed imports GDP increases. Increases in GDP/capita increase individual wealth.

# Some Items We Like to Forget!

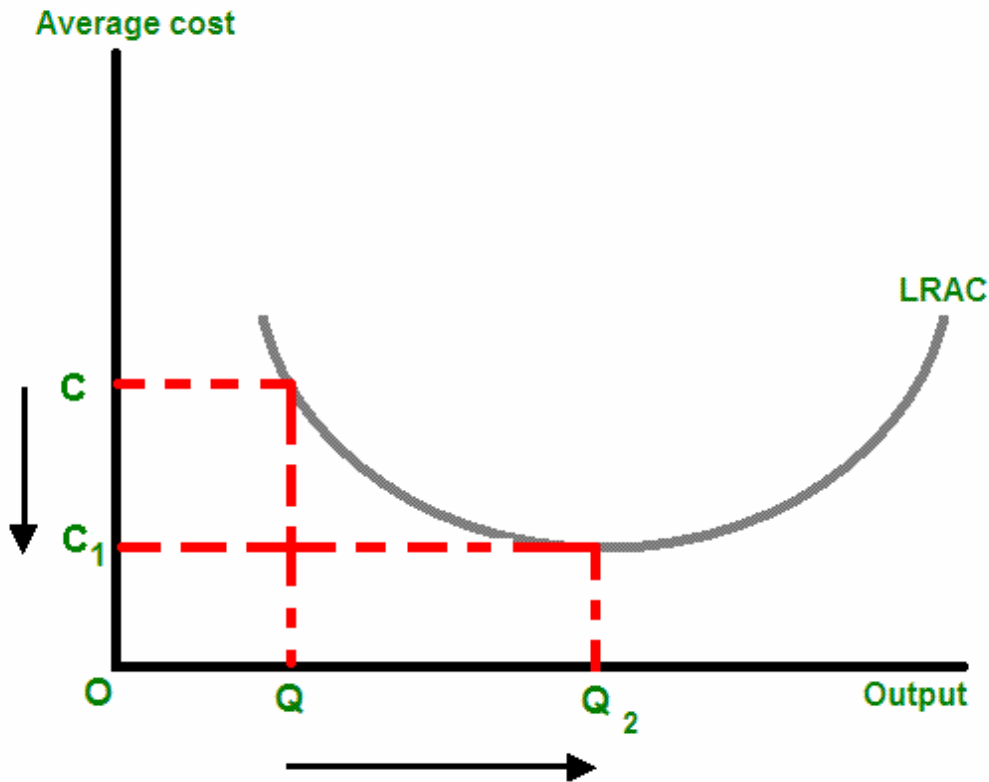
## 2. Geographic Realities

Saskatchewan is located in Western Canada



# Some Items We Like to Forget!

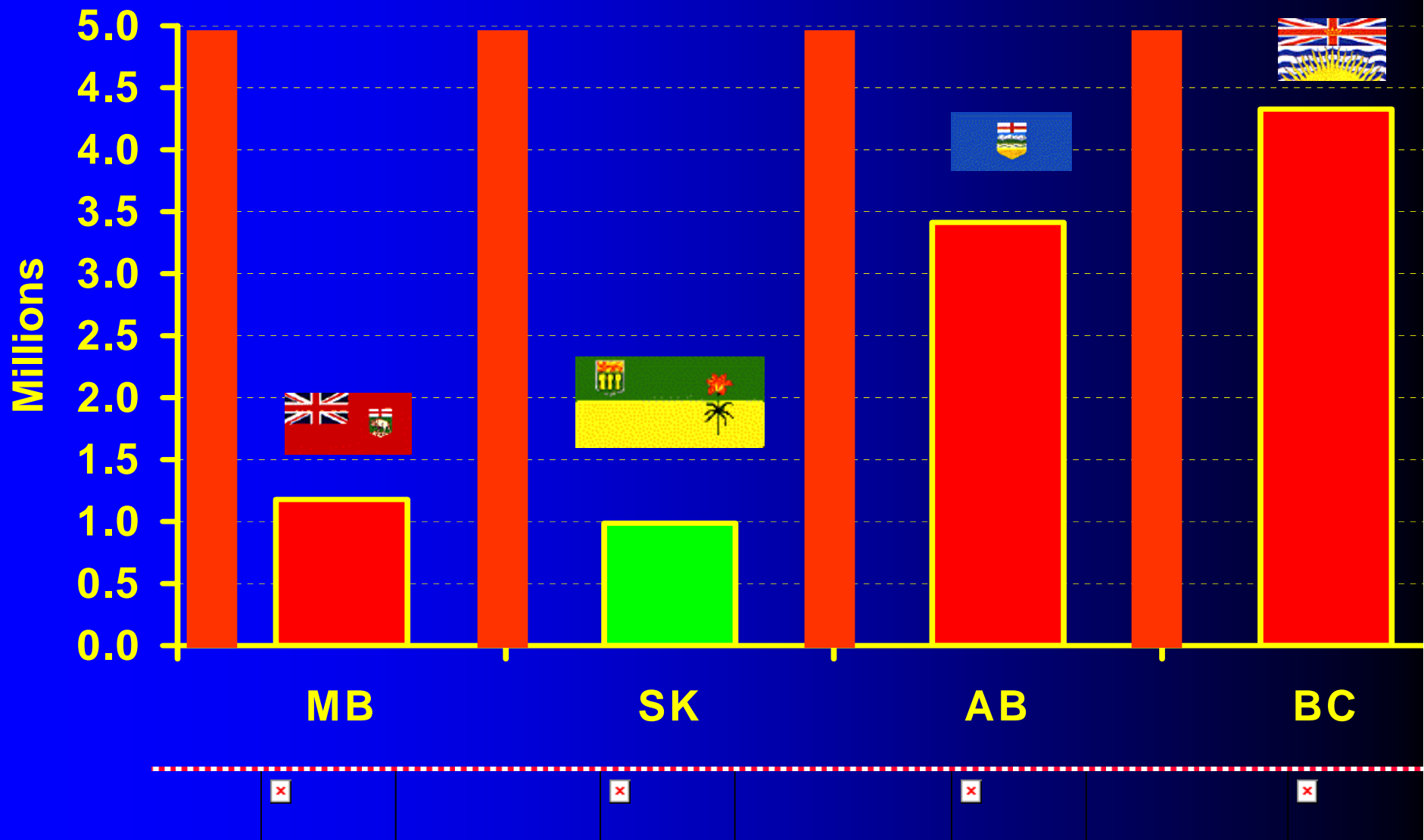
## 3. Economic Realities and Economies of Scale



- Long Run Average Cost Curves fall with Increased Output.
- Increased Output comes from serving larger markets
- Equals Incomes & Jobs

# Some Items We Like to Forget!

## 4. Trade Barriers are Realities



# Typical Western Canadian Trade Barriers

## Conference Board of Canada 1992

### Barrier

Nature of Business	Marketing Boards	Standards Regulations	Licensing Rules	Distrib. Limits	Differential Mark-ups	Procurement Policies	Other
Food	X	X				X	
Transportation		X	X				tax policies
Beer				X	X		Canadian Wheat Board pricing
Steel						X	employment programs
Construction				X		X	union practice
Chemicals		X					
Banking		X					
Consult. Engin.			X			X	
Wines			X	X	X		
Health Care		X		X			



# Internal Trade Barriers in Agriculture

- Technical and Marketing Regulations
- Income stabilisation policies
- Production Subsidies
- Input Subsidies
- Capital Assistance
- Transportation Subsidies
- Processing Subsidies
- Development Assistance
- Marketing Boards
- Supply Management



# Typical Costs of Barriers to Trade - Internal and External

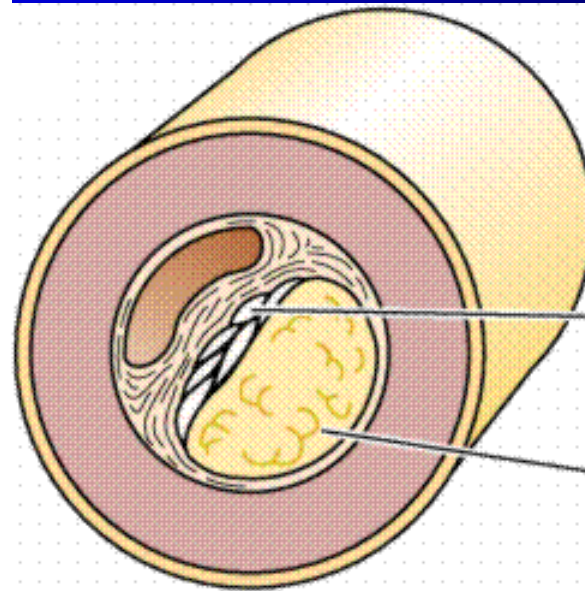
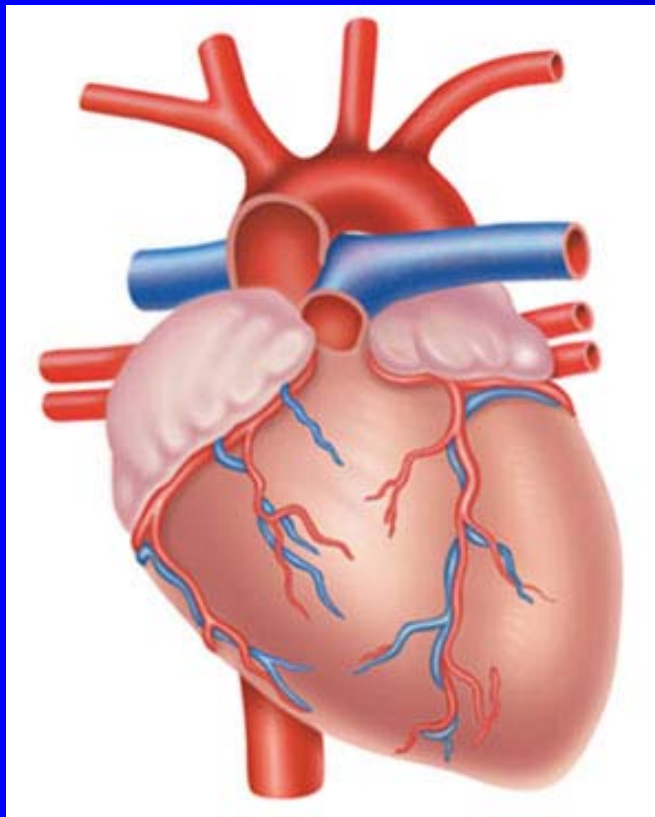
- **Reduced Efficiency**
- **Increased Costs through diseconomies of scale**
- **Raised Input Prices**
- **Increased government and administration costs = Higher Taxes**
- **Extra Legal and Administrative Costs**
- **Reduced business and international competitiveness**



# Trade Barrier Cholesterol

in the Economic Arteries of the Economy

$\$s$     $\$s$     $\$s$



ECONOMIC  
ARTERIES

Internal Trade  
Barriers

Productivity Loss

**LOWER TRADE BARRIERS**  
Reduction in Regulation  
Opening Public Procurement  
Liberalised Financial Services  
Supply Side Effects

# Typical Gains From Freer Trade

- Efficiency
- Productivity
- Lower Costs
- Lower Prices
- Increased Competition
- Lower Cost for Gov
- Lower Taxes

- Winner and Losers
- Adjustment

**\$s & Jobs**

increased investment

intensified competition

lower costs

lower prices

Gains in Consumer Purchasing Power

Gains in Competitiveness

Improved Trade Balances

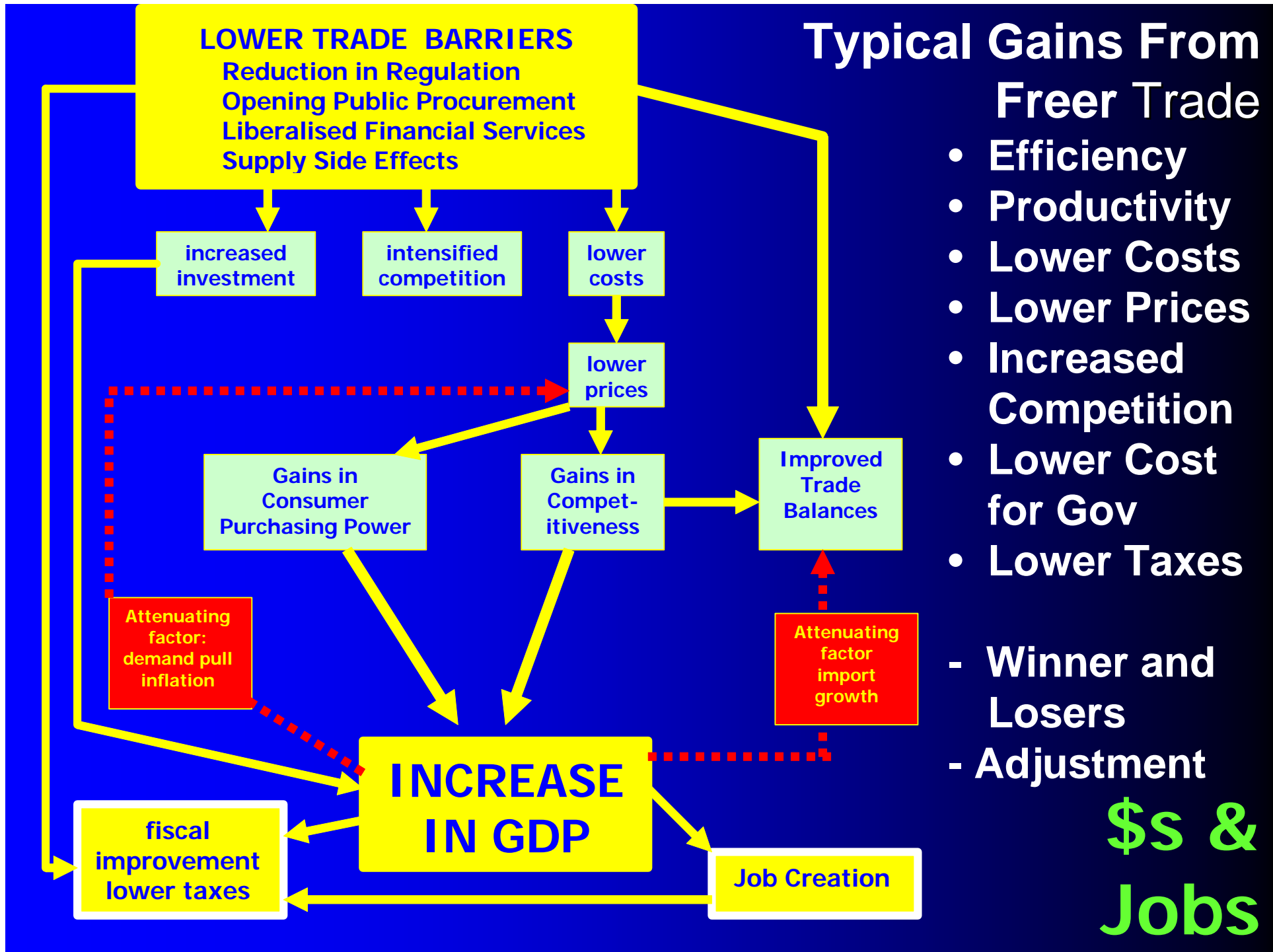
Attenuating factor:  
demand pull inflation

Attenuating factor  
import growth

**INCREASE IN GDP**

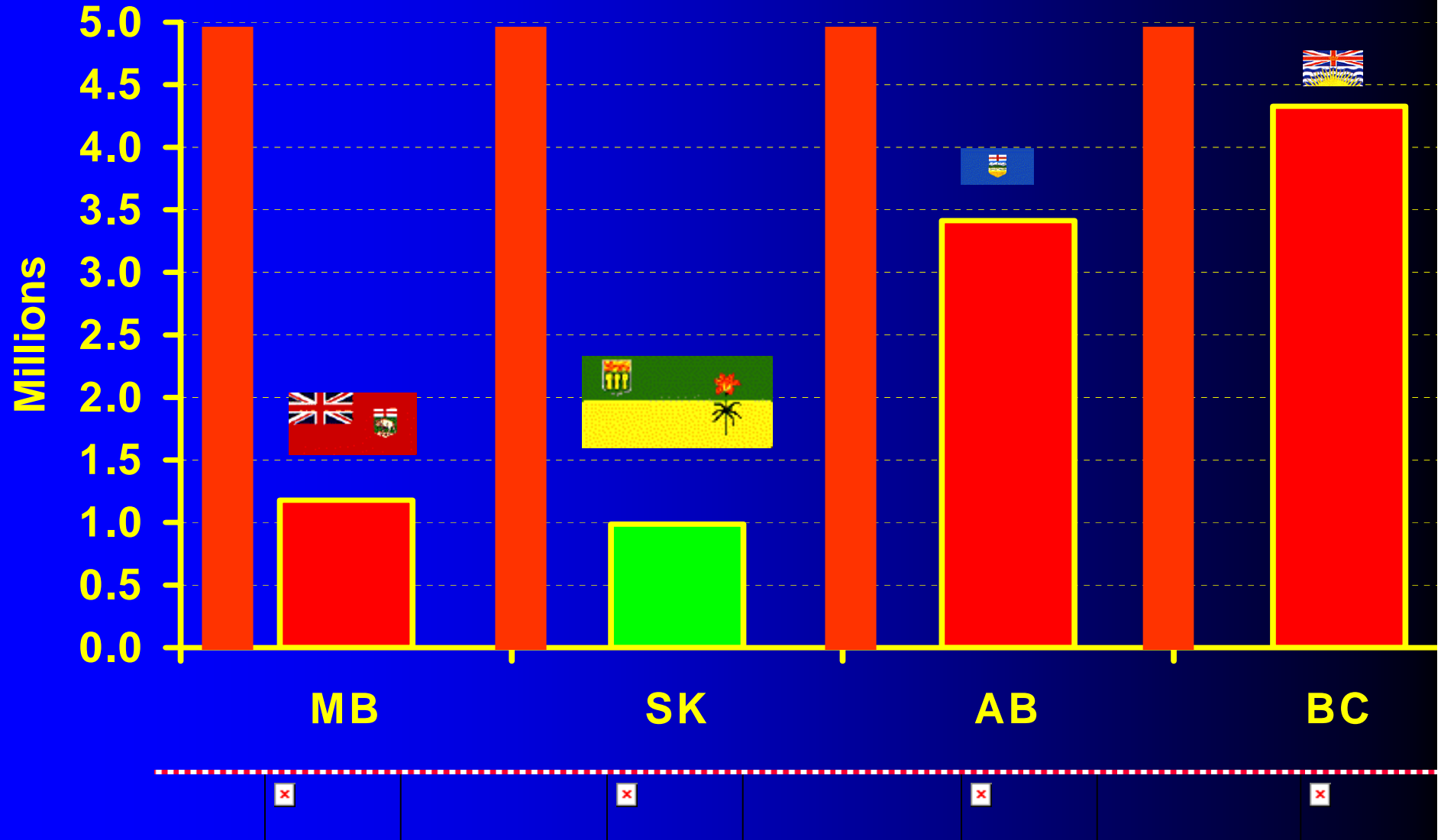
fiscal improvement  
lower taxes

Job Creation



# Some Items We Like to Forget!

4. Trade Barriers are Realities  
as are TILMA and NAFTA

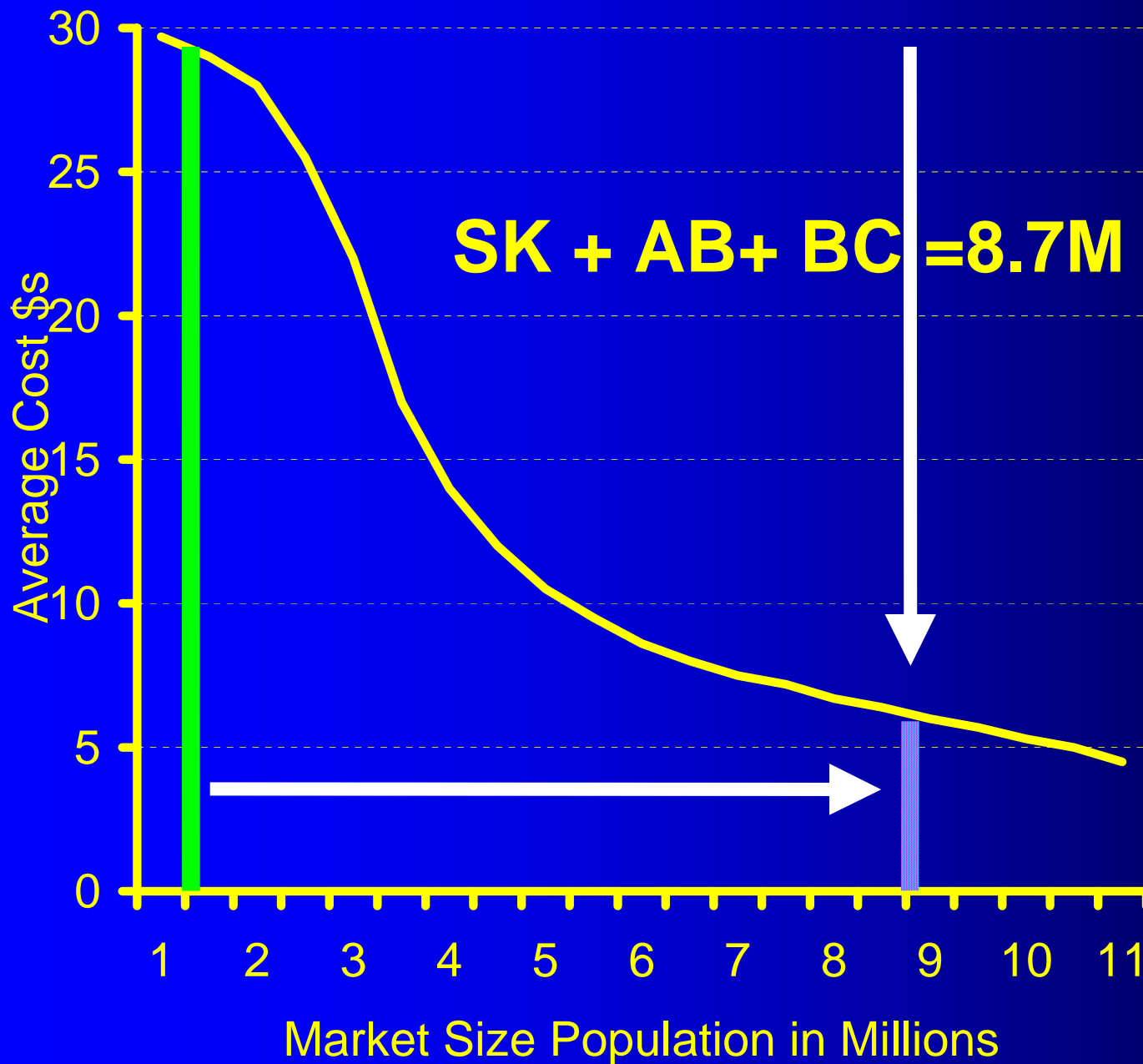


# So What Does TILMA Mean for Saskatchewan?



## A Huge Opportunity!

- Part of a Larger Market
  - (Population 9M compared to 1M)
  - (GDP \$460B compared to \$45B – SK, AB, BC)
  - (GDP \$1/2T compared to \$45B – All West)
- Conference Board \$291M GDP +4,000 Jobs
- Eric Howe, Univ of Saskatchewan (Higher)
- Re-enter the Western Marketplace



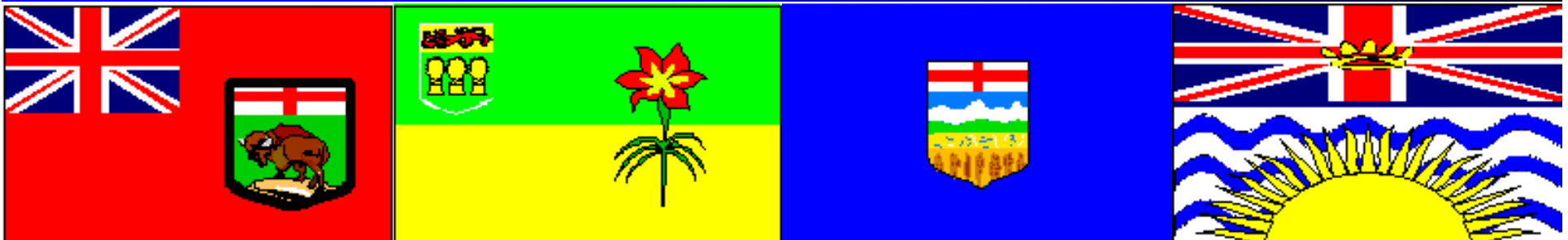
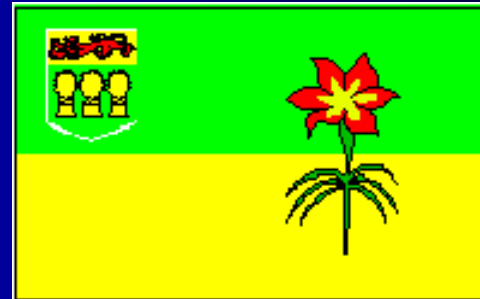
Provides for Economies of Scale

- Efficiency
- Productivity
- Lower Costs
- Lower Prices
- Increased Competition
- Lower Cost for Gov
- Lower Taxes

- Winner and Losers
- Adjustment

# More Than Economics!

- Diversification beyond Natural Resource Production
- Strengthens Western and Canadian Unity
- One West





# Status Quo Not an Option!

- TILMA is a Reality - Benefits flow now in AB & BC
- Since 1971 ½ M people left SK for Opportunity
- 40% of SK IP Exports of \$12.8B (05) to BC-AB
- SK needs a stronger more diversified economy to finance its aging population.
- Operation Sask Bootstrap did not work  
Provincial balkanisation  
Not good for SK or Canada.
- Pre WWII SK successful  
with regional cooperation.



# NEW REALITIES

## TILMA can work well for SK

- Higher Cdn\$ versus \$US requires higher Productivity/Efficiency.
- Saskatchewan has good competitive position today vis a vis AB and BC. Therefore CAN successfully compete.
- ½ + M who left SK now run Alberta and BC and = good market contacts.
- SK First Nations Provide a Labour Force Solution not Available to AB and BC.
- With Good Infrastructure SK can increase exports to AB and BC. Many companies already do.
- Short Windows of Opportunity! Act Now!
- Plan to Succeed!

# Survey Industry Impacts on SK

Conference Board of Canada 2006

Impact Scores Positive = Good

Sector	Score	Sector	Score
Agriculture	1.9	Trade (Wholesale & Retail)	1.7
Primary	2.2	Transport & Warehousing	2.4
Utilities	0.7	Fin, Ins, Real Estate	1.4
Construction	1.9	Health & Education	1.6
Manufacturing	2.1	Commercial Services	1.2

# Survey Regional Impacts on SK

Conference Board of Canada 2006

Impact Scores Positive = Good

<b>REGION</b>	<b>Score</b>	<b>rank</b>
<b>Swift Current – Moose Jaw</b>	<b>2.0</b>	<b>1</b>
<b>Saskatoon CMA</b>	<b>1.9</b>	<b>2</b>
<b>Saskatoon Biggar less Saskatoon CMA</b>	<b>1.8</b>	<b>3</b>
<b>Prince Albert and Northern</b>	<b>1.8</b>	<b>3</b>
<b>Regina CMA</b>	<b>1.6</b>	<b>5</b>
<b>Regina Moose Mountain less Regina CMA</b>	<b>1.5</b>	<b>6</b>
<b>Yorkton-Melville</b>	<b>1.4</b>	<b>7</b>

CMA – Census Metropolitan Area

**All Regions see benefits!**

# Mission Possible!

How Canada Performs – A Report Card on Canada  
Conference Board of Canada June 2007

Common Barriers to Trade for Canadian Business Identified As Government Policies And Practices		Costs of Non Tariff Barriers to Trade Identified As:	
Standards And Regulations	41%	Lost Business	26%
Procurement Policies	26%	Higher Admin Costs	24%
Licensing	20%	Less Competitive	13%
Interprovincial Labour Mobility	13%	Higher Operating Costs	11%

# THERE WILL BE ADJUSTMENTS!

- Some provincial autonomy is given up.
- Purchasing Practices in Crowns, Governments and Municipalities would change.
- Harmonisation would occur in many sectors Education, Transport, Municipal, Labour.
- Why Would Saskatchewan give up Local Autonomy?
- To Increase Benefits for its existing and future clients.
  - Taxpayers
  - Employees
  - Children

**Plan for A Competitive & Successful Future!**

# Free Trade Arguments

## Between Vested Interests who want to keep the Status Quo and the Wider Public Interest – An Ideological Debate

### Vested Interest Beneficiaries

- Bureaucrats and Regulators
- High Cost Local Suppliers
- Patronage – Local or Provincial

### Public Interest Beneficiaries

- Small Business – Increased Markets
- Tax Payers – Lower Government Services
- Government – Lower Cost Services

# Should Saskatchewan Join TILMA?

- If you have faith in Saskatchewan business to Cooperate and Compete the Answer is Yes Because Saskatchewan can Benefit from the Larger Market Because Saskatchewan can Compete in the Larger Market.
- If you are a beneficiary of the existing Status Quo you probably argue against TILMA but that decision will be at some significant wider economic Cost to the People of Saskatchewan and the future of their Children.



**Before WWII Saskatchewan Had a Successful  
Economy Based on Cooperation and  
Competition. SK becomes the 3<sup>rd</sup> Largest  
Province in Canada**

**TILMA provides Benefits for Saskatchewan's  
Taxpayers, Employees and Children that  
Would Strengthen the Province's Economic  
Future and Restore the Western Cooperation  
and Competitive Opportunities and Success  
from an Earlier Economic Era**

# **In Conclusion Beware those Preaching Free Trade Doom!**

- **Freer Trade Cooperation, Trade, Competition and Investment are a Recipe for Future Economic Success and Employment.**
- **Both Economic Theory and Empirical Evidence from Europe, Asia, Latin America, North America all show real benefits – incomes and jobs**
- **The Recipe has worked well for the rest of world.**
- **It will work well for Saskatchewan!**
- **Saskatchewan should join TILMA – ASAP!**