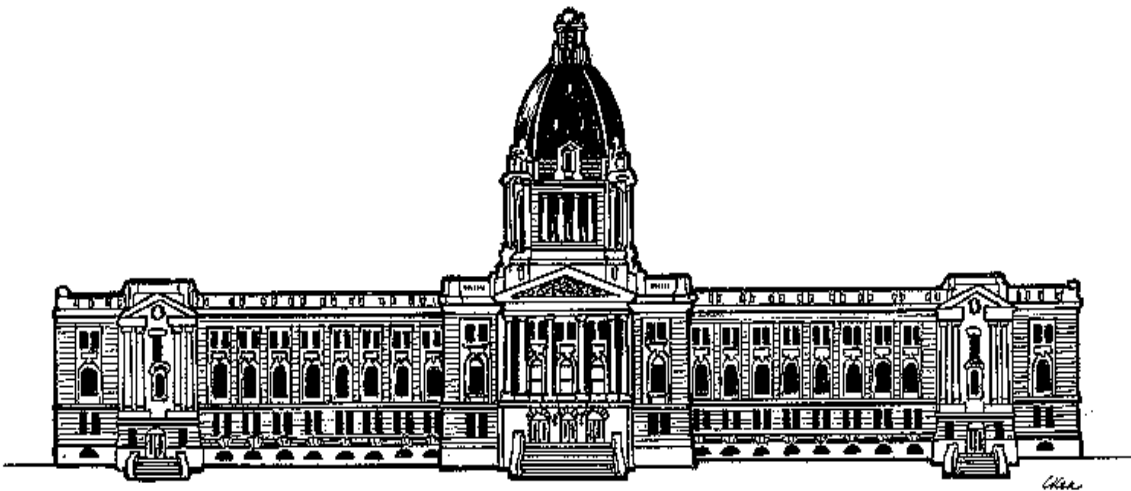




STANDING COMMITTEE ON THE ECONOMY

Hansard Verbatim Report

No. 47 – June 4, 2007



Legislative Assembly of Saskatchewan

Twenty-fifth Legislature

**STANDING COMMITTEE ON THE ECONOMY
2007**

Ms. Doreen Hamilton, Chair
Regina Wascana Plains

Mr. Randy Weekes, Deputy Chair
Biggar

Hon. Deb Higgins
Moose Jaw Wakamow

Mr. Delbert Kirsch
Batoche

Mr. Eldon Lautermilch
Prince Albert Northcote

Mr. Lyle Stewart
Thunder Creek

Hon. Kevin Yates
Regina Dewdney

[The committee met at 13:00.]

Mr. Kaczowski: — Good afternoon, committee members. As committee Clerk, it is my duty at its first meeting, or current meeting I should say, to preside over the election of the Chair, and I will call for nominations for that position now. Ms. Crofford.

Ms. Crofford: — I would nominate Doreen Hamilton.

Mr. Kaczowski: — Thank you. Ms. Crofford has nominated Ms. Hamilton to the position of Chair. Any further nominations? Seeing no further nominations, I would now invite one of the members to move a motion that Ms. Hamilton be elected to preside as Chair of the Standing Committee on the Economy.

Mr. Weekes: — I so move.

Mr. Kaczowski: — Mr. Weekes. All those in favour of the motion?

Some Hon. Members: — Agreed.

Mr. Kaczowski: — All those opposed? I declare the motion carried and invite Ms. Hamilton to take the Chair.

The Chair: — Well welcome, everyone, and thank you for your faith in me and the new position that I'm assuming today. We have a number of exciting weeks ahead of us as a group and looking forward to many presenters and broadening our information on agreements on internal trade and their impact on Saskatchewan.

Before we begin our deliberations, I would ask our Vice-Chair Randy Weekes to move a motion on the steering committee makeup. It's had the names of Chair and Vice-Chair, and we're going to have a motion that the steering committee would be made up of the positions rather than the names. So to that end, if, Mr. Weekes, you would move that motion please.

Mr. Weekes: — Thank you, Madam Chair. I move:

That a steering committee be appointed to establish an agenda and priority of business of subsequent meetings and that the membership be comprised of the Chair and Deputy Chair;

And further that the steering committee shall meet from time to time as directed by the committee or at the call of the Chair, that the presence of all members of the steering committee is necessary to constitute a meeting, and that substitutions from the membership of the Standing Committee on the Economy be permitted on the steering committee.

I so move.

The Chair: — It's been moved by Mr. Weekes . . . Questions to the motion? I would call for the question. All those in favour? Opposed? Carried.

Enquiry into the State of Internal Trade in Saskatchewan

The Chair: — According to Rule 146(2), the enquiry into the state of internal trade in Saskatchewan, we have been asked by the minister to be the body that would hear witnesses and hear presenters on this topic and to glean as much information as possible for government to be a decision-making body on our responsibilities and roles in trade agreements that would affect our province.

So to that end, this afternoon we have before us a number of people, including the minister who has made that request, to give us an overview from the Department of Government Relations, and we also have a presentation from Kathleen Macmillan, the independent consultant, later this day.

With that in mind, if that's the approval of everyone, are there any further additions to the agenda? That will be our afternoon agenda before us.

I welcome the minister and his official. If you would introduce yourselves and also the officials that are with you and we would welcome opening comment. Thank you.

Hon. Mr. Van Mulligen: — Thank you very much, Madam Chair. Good afternoon to you and members of the committee. I'd like to introduce with me Ms. Kathleen Macmillan. She's the president of the private consulting firm, International Trade Policy Consultants, and a long-time student of internal trade in Canada. She is here at my suggestion because, while the Government of Saskatchewan does not necessarily or entirely share her views, she is highly qualified to provide this committee with an overview of the national state of play on the subject of your enquiry. And she and a colleague have just completed two very important and useful papers on internal trade and labour mobility in Canada for two federal departments — the department of Industry and the department of Human Resources and Social Development. And those papers are best and are the most current reviews of the evidence available anywhere. And I believe those papers were provided to the committee, and they have also been made available to the public on my department's website.

Also with me today, seated on my left, is Lily Stonehouse. She is the deputy minister of Government Relations. Seated on my right is Mr. Paul Osborne, the assistant deputy minister of trade policy and international relations division of the department. Seated behind me are Robert Donald, the director of the trade policy branch and Saskatchewan's internal trade representative, and Ms. Linda Zarzeczny — she is the trade counsel with Justice's public law division — and Dr. Osman Rahman, senior trade economist in our trade policy branch.

Thank you very much for this opportunity to appear before you. And I'd like to open this inaugural session by saying that your investigation of internal trade issues has a fairly long pedigree. In fact it goes back 140 years when Canada chose to create a federal structure to respect the diversity of the confederating colonies while permitting them to enjoy the advantages of a common market and economic union.

Of course establishing and maintaining a balance between

economic integration and regional political autonomy is challenging as our political history over the past 25 years or so demonstrates. From its beginning Canada has had neither a perfect common market nor a perfect economic union. The exercise of federal and provincial powers has at times impeded the free flow of goods, services, capital, and labour right across the country and the harmonization of key economic policies between the two orders of government.

According to the letter of our constitution, both orders of government are prohibited from erecting barriers to the free flow of the factors of production. Otherwise the regulation of interprovincial trade is an exclusively federal power. However over the years, those provisions of the constitution have been interpreted so that individual provinces are empowered to legislate and regulate most business activity in ways that are most responsive to their electorates. In doing so, they are not legally obliged to take into account the spillover economic effects of their local laws and regulations on other provincial economies or the national economy as a whole.

The same holds true in the case of labour mobility. Ottawa and the provinces regulate labour within their respective jurisdictions. In the case of the professions, provinces have generally delegated their regulatory powers to the professional associations themselves. Inevitably this practice has produced regulatory differences that can constrain mobility between provinces. And despite the fact that labour mobility also became a Charter right of individuals after 1982, that right is constitutionally qualified in a number of important ways that permit provinces to impose certain restrictions on it. The only constraint is that their measures cannot discriminate between persons on the basis of their province of residence.

And so it is that our common market is less than perfect, such as it might have been if we lived in a unitary state. The so-called four freedoms regarding the national mobility of goods, services, labour, and capital are constitutionally qualified in Canada so as to secure a certain degree of political autonomy for the two orders of government.

Over the 1980s and '90s there were numerous attempts to change the constitution to give Ottawa stronger powers over the management of our economic union. Those attempts were unsuccessful mainly because the provinces found the federal proposals to be too constraining on their respective authorities to pursue local economic development.

It's remarkable then that the national Agreement on Internal Trade, or AIT, was successfully negotiated in the early 1990s. The AIT was signed in 1994, and it came into effect in mid-1995. The AIT is a very public recognition by all first ministers that they are collectively responsible for the health and welfare of Canada's common market. It is an example of how the two orders of government in Canada have attempted to deliver to Canadians the economic benefits of belonging to a common market while also preserving their democratic and legislative authorities.

The AIT is national in application, but its economic scope of coverage is restricted to specific sectors and specific issues related to internal trade. This is what some have described as a bottom up or empty box approach to internal trade

liberalization. Only those matters that governments agree to put in the AIT box are affected by its rules.

Ten years on, it was clear to premiers that the AIT, while a very important and useful first step, suffered from some procedural and structural deficiencies. To address those, the premiers' Council of the Federation adopted an ambitious 17-point internal trade work plan in 2004. The federal government subsequently agreed to this plan. This work plan has since been narrowed to a six-point agenda of priorities including labour mobility, energy, agri-food goods, regulations and standards, business subsidies and dispute settlement.

Internal trade ministers have recently agreed to substantial improvements on labour mobility, energy, and dispute settlement. However full agreement on reform remains elusive in the key areas of agri-food goods, regulations and standards, business subsidies and the enforcement of dispute panel decisions — I might point out that we're meeting again in two days from now to try to make further progress on these items.

Saskatchewan's agenda at this meeting and future discussions will consist of five priorities for national reform of internal trade. And we want to improve the effectiveness of the AIT's dispute resolution mechanism; eliminate all provincial barriers to labour mobility in all regulated occupations by April 1, 2009; finalize and incorporate an energy chapter in the AIT in 2007; address nuisance differences in regulations and standards that unnecessarily distort economic flows; and broaden and deepen the AIT's scope of coverage incrementally using a practical problem solving approach.

Now I'd like to put the Alberta-BC [British Columbia] Trade Investment and Labour Mobility Agreement, TILMA, in the context of the ongoing work of renovating the national Agreement on Internal Trade. One element of the premiers' internal trade work plan was the identification of so-called gaps in exemptions in the AIT's scope of coverage and of options for addressing them in ways that could streamline that agreement's operation. Alberta and BC agreed to be the two lead jurisdictions on that work for the council and federation.

Internal trade ministers originally asked Alberta and BC to develop two different approaches to this set of issues: a comprehensive approach — which Alberta, BC, and Ottawa supported in principle — and an incremental or issue-specific approach which Saskatchewan and the rest of the provinces and territories preferred. In the end Alberta and BC chose to collapse the two. In September last year they tabled the TILMA, which they had signed four months earlier, as the sole option for internal trade ministers' consideration.

At the same time, those two provinces formally notified the other provinces that TILMA is a so-called bilateral trade enhancement arrangement that the AIT permits so long as it is (a) comprehensive in scope; (b) more liberalizing than the AIT; and (c) open to accession by other governments. In the national context, this is a controversial development. Since the TILMA addresses all of the elements of the premiers' internal trade work plan on the AIT but in a significantly different way than the AIT, the TILMA can plausibly be viewed as a proposed replacement rather than an incremental reform of a national agreement.

In some key ways the TILMA is incompatible with the AIT. For example, the TILMA employs what's been described as a top-down or full-box approach, meaning that all sectors of the economy are covered by its rules unless governments decide to list some explicit exemptions. And then, unlike the AIT, the TILMA provides for legally enforceable dispute settlement, including the assessment of monetary awards against offending governments that refuse to comply with a panel's ruling.

These and other features of the TILMA have been met with some concern at the national table. However all ministers have now agreed to examine the TILMA with a view to (a) identifying elements of it that might usefully be imported into the AIT; and (b) deciding whether to sign on to it as a complement to the AIT.

In this context Saskatchewan has been closely examining the TILMA. In fact this province is leading the national examination of the TILMA's dispute settlement provisions for possible adaptation or adoption in the AIT context.

We're also examining the possible implications of TILMA-like approaches and provisions on the government's policies and programs, and we're looking into the economic costs and benefits to the province of a renovated AIT relative to those of the TILMA and/or a TILMA-like replacement of the AIT.

These are the same issues on which the government, through your committee, is hoping to receive the views of provincial stakeholders and the public. More precisely, the government is interested in receiving your committee's report on (a) what specific impediments to internal trade, including interprovincial investment and labour mobility, are problematic for provincial interests; and (b) what practical solutions and/or intergovernmental mechanisms do those provincial interests identify as best suited to addressing trade impediments.

Your committee's work is very important. The consideration of the TILMA or any other model for renovating the AIT is important to Saskatchewan since over half of our internal trade occurs with Central Canada. And you will know by now that Saskatchewan is Canada's second most export-oriented province, and internal trade is an increasingly important driver of our economic performance.

The government is committed to ensuring that Saskatchewan remains an active trade partner, investment location, and labour market. However we also believe it's in the public interest to pursue those objectives in ways that do not unduly constrain the government's ability to deliver the social, environmental, and community development objectives our people desire and deserve. And we believe that it is in the provincial and national interests to find an integrated national solution to removing internal trade barriers.

And with that, I thank you for your time and your attention, and I would now like to turn the floor over to Ms. Kathleen Macmillan to brief the committee on the outcomes of her most recent work on the state of internal trade in Canada. And following her presentation, my department officials would like to provide the committee with a brief Saskatchewan-specific perspective. Thank you very much, Madam Chair.

The Chair: — Before we would ask Ms. Macmillan to step forward, if there are any questions the committee has of the minister and officials at this point based on the overview from the minister? If not, I thank you and would ask Ms. Kathleen Macmillan, International Trade Policy Consultants, to step forward, and welcome to our committee.

Ms. Macmillan: — Thank you very much, Madam Chair, and congratulations on your election.

The Chair: — Thank you.

Ms. Macmillan: — Good afternoon committee members. Thank you so much for the invitation to appear today. I haven't been in Regina recently, but I have certainly spent many occasions here over the years. And it's wonderful to be back.

By way of history, I pulled out of my scrapbook a report I wrote for the Canada West Foundation back in 1985 on the topic. Well it was entitled *Interprovincial Trade and International Competitiveness*. That was before many of you were born I realize, but one of our committee or council members was Roy Romanow. He was briefly in between a post in government. He provided on the issue of internal trade a tremendous amount of leadership and insight as he did on other issues, so it's very fitting that I'm back here in Regina speaking about internal trade today.

I'm going to burden you with a few slides because the issue is a complex one, and I thought it might help animate the discussion. And if you'll bear with me a moment, I'm going to start . . . I'm going to talk to you today about how big a problem internal trade barriers are. I'm going to also outline for you some of the most critical barriers that remain. I'll discuss briefly what we have achieved with the Agreement on Internal Trade, both on the positive and the negative side. I'll briefly summarize for you the BC-Alberta TILMA agreement, and then I'm going to consider some options for dealing with internal trade issues.

I'm going to start by outlining what I call my point of departure, and that is, as the minister indicated, I think it's very important to recognize that Saskatchewan is already a very open economy and one that is highly trade dependent. I know the officials from the ministry who are going to speak after me are going to talk in more detail about the specifics of that, but that's an important thing to understand right from the beginning.

And then also just taking a page out of prairie pragmatism, I'm also going to say that I think in approaching this issue, I would urge you to think about the policy effort in the context of the size of the problem.

Interprovincial trade barriers are large in some instances. However in others they are not as large, and I would urge you to focus on those barriers that cause the greatest damage in terms of the functioning of the economic union and those that are the easiest to dismantle. Now this is with the low-lying fruit argument.

And finally, I'm going to also suggest that in deliberating on this issue you think about, as the minister said, different models. It's not simply signing onto the TILMA or accepting the

Agreement on Internal Trade as it is. There are other options for addressing the problem.

There are two views . . . well they're many views on the size of the internal trade problem, but I'm going to give you the two extreme views. One is that the problem is huge. Business groups in particular would argue that the excessive regulation imposes a lot on business in terms of compliance costs, out-of-pocket compliance costs, and also discourages them from even doing business in other jurisdictions.

A recent survey of members of the Canadian Chamber of Commerce found that one-third of them had encountered barriers to internal trade and found that those had a negative impact on their businesses. They say that barriers, in addition to imposing costs on the businesses, they raise prices to consumers and they limit consumer choices.

This is an opinion that has been expressed by international organizations such as the IMF [International Monetary Fund] and OECD [Organization for Economic Co-operation and Development]. I looked at the recent reports for both these two international organizations, and they have both highlighted Canada's barriers to internal trade as being negative for Canadian productivity. So it's clearly something that is noticed by international trading partners.

The second view of the internal trade problem is that it isn't a big problem, that our barriers are not as significant as those that exist in the United States and Europe. This view would say that our biggest barriers are not explicit barriers aimed at protecting certain sectors, but are in fact the kinds of annoyances that come from a failure to coordinate regulations. These are irritants as opposed to barriers.

The other view that barriers are not significant is that econometric studies, empirical economic studies that have looked at this problem where they measure economic welfare losses, have concluded that the overall cost on the economy is less than one-half of 1 per cent of GDP, gross domestic product. So the alternate view is that this is not anything that is worth worrying about.

I would say though that in looking at the economic welfare approach, and you will hear from witnesses later on in your hearings that will present to you evidence showing that the learned economists find the costs are small. These economic welfare exercises tend to focus on net cost as opposed to gross cost. So in other words if you are prevented from moving to my province, that costs you, but it benefits me because I might have the job that you want. And so your cost is netted out by my gain. The net cost to the economy would be small because you quite possibly are better qualified to do that job than I am. But what we're measuring when we look at that kind of economic exercise is the net cost as opposed to the cost that you've had to incur by being denied opportunities in the other provinces.

The second point I would make is the comparisons to jurisdictions like the United States and Europe might not be valid for Canada. We have a smaller economy. So if we're prevented from trading between Saskatchewan and Manitoba, we might not be able to achieve the kinds of economies of scale that might benefit consumers and allow our businesses to be

more competitive. And so I think that the scale costs are greater for smaller markets like Canada.

The third argument I would make is that of the rights of common economic citizenship. The minister spoke earlier of the fact that our constitution entrenches certain rights of mobility, certain rights to do business elsewhere. We've been reluctant to actually test those constitutional powers, but I think we'd all agree that Canadians should have free access to economic opportunities elsewhere.

Finally the final point of course is this issue of the perception that we are giving international investors.

All right. Barriers that are most commonly identified are government local procurement practices which give preferences to local suppliers. There's also explicitly protectionist policies such as those that are governing the agricultural sector and alcoholic beverages. The third thing that is often recognized are technical standards and regulations where we have overlapping requirements which impose transaction costs on people wanting to move to other provinces or businesses wanting to be licensed in other provinces, and finally the issue of securities regulation which I will come to later.

Government procurement, we have achieved remarkable success under the Agreement on Internal Trade. With the Agreement on Internal Trade, well it establishes certain principles in this area but governments, through co-operation, were able to make substantial extensions to what the agreement contains. The sector was extended to cover the municipal, academic, school, hospital sectors. It covers now Crown corporations. It's been one of the great achievements under the AIT. There's more that could be done in the procurement area, but there has been substantial progress made.

Agriculture, the Agreement on Internal Trade was very unambitious in this respect and yet . . . Zero progress has been achieved really in agriculture over the 12 years that it's been in place. There, we still continue to have a host of restrictions governing things like trade in horticultural products, trade in meat products. The supply-manage sectors obviously have been carved out of any kind of trading regime. The failure to make any progress in agriculture has been damaging to our reputation in the international trade arena.

I should say that there has been last year . . . there was last year a plural lateral agreement between six governments, including the Government of Saskatchewan. Well it was the four western provincial governments, the Yukon, and Prince Edward Island that got together and agreed among themselves to create a sectoral agreement that would look at dismantling technical barriers in the agriculture area. And so this is a promising thing. And indeed it actually serves as a model for the TILMA agreement in that it is a departure from the consensus that existed under the Agreement on Internal Trade. And I can talk a bit about that later too.

Technical standards and regulations, there's a host of these governing such things as wheel axle lengths in trucking regulation to construction safety, consumer labelling, packaging, certification, also issues relating to business framework laws like business licensing. It is identified quite

often by businesses as a major factor increasing costs for major project development.

Technical regulations arise most often because they fall in areas of legitimate provincial jurisdiction. They're not explicit attempts to impede trade, but provinces and territories regulating in their own legitimate area will create these differences in standards that serve to impede the operation of businesses across borders or impede the movement of people across borders. It's a difficult area because it requires — in the case of making progress — that there has to be some kind of agreement to accede to a higher sort of supra-provincial authority and give up on policy sovereignty in an area of legitimate provincial jurisdiction. That's why progress has been so hard to achieve, and yet it's in a very important area because quite often these are things that are just plain silly.

Let me give you an example. When Alberta and British Columbia spoke about the TILMA agreements, they found that oil field workers that operate in British Columbia and in Alberta are separately required to have first aid kits and that contents of these first aid kits are the subject of regulation in both jurisdiction. Now I can't remember the specifics exactly, but I think the Alberta requirement was for five band-aids and two pairs of scissors, and the BC requirement was for one pair of scissors and eight band-aids. Well when they got together and realized that this was just plain silly, that they could just sit down and come up with a common agreement on what kind of first aid kit they should have, then it was so much easier than a situation where oil field operators on both sides of the border were required to have two separate first aid kits. And that's the kind of thing that is frustrating to business and yet would be painful if done on a case-by-case basis to try to resolve. And we'll get, we'll get more on that later.

Securities regulation, this is another thing that is pointed to very often by foreign investors as an example of the fragmented — really unprecedentedly fragmented — nature of the Canadian market in so far as investment is concerned. I think we might be the only remaining jurisdiction in the world that has essentially 13 separate regulators for companies that are willing to or wanting to list on exchanges and sell securities across this country. There've been plenty of studies advising how to or with a need to do away with the separate system to reduce costs and to increase compliance, and yet we still have not been able to see our way clear to fixing this.

I'm going to pass on investment. There's a couple of investment restrictions as well, but in the interests of time, we will go over that.

As the minister explained, the Agreement on Internal Trade is 12 years old now. It contains strong statements of principle, also commitments with respect to specific sectors. The achievements in the different sectors are imbalanced in the sense that energy and agriculture, we have not yet seen anything. But we have done very well in the area of government procurement and labour mobility. As minister indicated as well, the agreement . . . No.

I'll move on to this. Yes. I'm going to go ahead. Talking about Alberta-BC TILMA came into force earlier this year. It is right now in the middle of the transition program. We've got two, the

two governments have two years in which to resolve certain issues, reconcile a number of standards in the area of labour, for example, and consumer issues. It was negotiated pursuant to article 1800 of the AIT which allows parties to enter into bilateral and other arrangements provided they make the arrangement open to other parties within a reasonable length of time, and that's why you are here talking about it today.

The TILMA extends significantly beyond the scope of the AIT. It is not merely a trade agreement. It is actually the culmination of a two- to three-year effort by the BC and Alberta governments to achieve a greater degree of economic integration and co-operation. It was accompanied or preceded by memoranda of understanding that were negotiated in a number of areas like child protection, health surge capacity, environment, etc. Its aim is to improve the efficiency and to create a large . . . well indeed the second largest economic area in the country.

Among other things, it addresses non-material differences in standards and regulation —so the kinds of things like the first aid kit example and issues related to business operation. Its basic architecture is different from the AIT as the minister explained. Everything is in the box, unless it's explicitly excluded or exempted, and mutual recognition is the default. In other words, it strives to reconcile standards and regulations between the two provinces.

However if that is not, cannot occur and if exemptions are not made, then the default situation is that the provinces will recognize each other's workers, each other's businesses, each other's motor vehicle registrations, etc. So it's a bold agreement in that respect. And this is in contrast with the AIT which essentially says with respect to things like worker qualifications and business licensing, as I've said, we will strive to reconcile them, but if we don't reconcile them, then we continue on as we've gone. This is a different . . . if the onus is on the regulator to justify and explicitly ask for an exemption from the basic situation of mutual recognition. It also is broader than the AIT in that it applies to all measures that restrict or impair trade, investment, or mobility.

I'm going to briefly go through some of the key provisions. With respect to investment, it eliminates the need for separate business licensing. It eliminates the need for local offices or local agents. Business subsidy, it prohibits those that result in material injury to enterprises in the other province. Now the AIT also has a business subsidy provision which calls for transparency and prohibits outright poaching, but this TILMA agreement has stronger provisions in that respect. In the area of government procurement, the TILMA has broader coverage and lower thresholds than those of the AIT.

The energy agreement provides for non-discriminatory access in the two provinces which is again more than the AIT has. The AIT has not been able to successfully reach an energy agreement yet although it's close.

Transportation — this is very interesting. A commercial vehicle that is licensed in BC would not have to re-license in Alberta and vice versa.

Now agriculture is not included as an explicit chapter in the

TILMA; however it is presumed to fall within the TILMA's general rules. Accordingly the provinces will be harmonizing agricultural standards and regulations. Other standards and regulations will also be harmonized or mutually recognized, so these are things like consumer protection standards.

And as the minister indicated, the dispute settlement mechanism under the TILMA is more effective than that of the AIT. The AIT has allowed parties to ignore . . . In fact six out of the eight AIT's panel decisions under the dispute settlement mechanism were not implemented. Only one quarter of them have been implemented by the parties. That will presumably be more difficult under the TILMA agreement between Alberta and BC. It also provides the possibility of monetary awards, so if a government ignores the decision of a dispute settlement body, that government could be fined up to \$5 million.

A very important aspect of the TILMA concerns labour mobility, and essentially what it says is that trades or workers, professional workers, would have their credentials qualified by the other province without having to re-register. Now there are exemptions possible. There are a list of occupations that are listed in the transitional measures — which is part VI of the TILMA — and the provinces will be working over the next two years to come to some common understanding about how to recognize the qualifications of those occupations. If they are not successful, those occupations could remain on the exemption list. If they are successful, they could be moved over and would be subject to the mutual recognition defaults provisions.

Let's talk about the concerns of other governments, and the minister touched briefly on this as well. Other governments are concerned about the TILMA, feeling that it has diverted attention away from the important work that's been done at the AIT and the ambitious agenda that the AIT has established for itself. There are certain provisions of the TILMA that have attracted a special amount of negative attention.

Obviously provinces that are heavy with supply managed regimes do not feel kindly towards the TILMA's provisions with respect to agriculture. Now even though the TILMA, like the interim agreement on agri-food or interim agreement on agriculture and food goods of last year, has not indicated that it has any desire to go near supply management, other governments in Canada feel it's a bit of a slippery slope argument, that one minute you're talking about the colour of margarine and then the next minute you're trying to restrict fluid milk shipments between the . . . or unrestrict fluid milk shipments between the provinces. So there's a lot of nervousness about opening up that Pandora's box of agriculture at all. And so the TILMA provisions in that respect have caused discomfort among certain governments elsewhere in the country.

The business subsidy provisions are also considered unacceptable to some smaller provinces who feel that it might constrain their ability to reward or support disadvantaged regions or disadvantaged sectors within their province or territory.

And finally there's a tremendous amount of criticism about the dispute, the binding dispute settlement mechanism that is contained in the TILMA. Governments feel it is incompatible

with the spirit of consensus and co-operative federalism. They also feel the monetary reward system is imbalanced. They think that a \$5 million cost to the Government of Quebec might not have dissuaded them from their margarine colouring restrictions, for example, but it would do a tremendous amount of damage to the Yukon Territory. And so they don't like the fact that it's just a \$5 million number because it would bear in an unbalanced fashion.

Other critics — and you're going to hear from these people — are saying that the TILMA will undermine the legitimate decision-making power of governments in important areas like health and social policy. They also maintain that it would open governments to challenge from private sector interests, somewhat like what occurs under chapter 11, the investors state provision of the NAFTA [North American Free Trade Agreement]. They also warn that it would lead to a race to the bottom in terms of regulatory standards.

In defence of the TILMA, it's pointed out that the TILMA is based like the WTO [World Trade Organization] and the AIT on a very important legal principle of reciprocal non-discrimination. And that doesn't mean . . . or that means not that regulations and laws have to be the same across the country, but simply that enterprises receive treatment that is no less favourable in one jurisdiction than the suppliers in that particular jurisdiction are accorded.

So in other words, if you have a school lunch program in the province of Saskatchewan, you're not going to be forced to get rid of that because you sign on to a trade agreement. You just have to make sure that when you regulate or impose any kind of conditions on the providers of that school lunch program that you do that in a way that is balanced and fair in terms of suppliers from other provinces.

Also in defence of the TILMA, it does contain exemptions and exceptions for legitimate objectives, and these objectives are defined in the agreement and include such things as the provision of social services and health services.

And finally the TILMA's model for dispute settlement is the AIT, it's not chapter 11 of the NAFTA. And the AIT model is merely enhanced in the TILMA to encourage governments to adhere to the basic commitments that they have already made in the agreement and not go beyond them.

I'm going to turn briefly now to the options for improving internal trade. I'm going to consider everything from signing on to the TILMA, as it is, to doing nothing, and I'm going to start with signing on to the TILMA. I characterize this in terms of a positive and a negative, trying to be as balanced as I can about this.

On the positive side the TILMA's already there. It's already done. It contains a complete package — one shop stopping so to speak. It's got the sectoral chapters in there. And it's got the administrative provisions and institutional procedures already established. It also obviously would help Saskatchewan in terms of alignment of Western Canadian economic interests.

On the negative side — and the minister touched on these and I did earlier as well — it's rather tailored to the BC-Alberta

situation and the specifics of the situation, and that's evident in some of the chapters for example relating to energy. There are some provisions of the TILMA that provinces might find unpalatable. And the other important thing to note about the TILMA is it does risk balkanizing the Canadian market to some extent.

Another option is to stay with the AIT and continue to work to improve it. On the positive side it avoids the balkanization danger. It's also respectful of the legitimate jurisdiction that the provinces and territories have in important areas of regulation, and it avoids upsetting entrenched interests, which is a positive. And just to be provocative, I put that as one of the negatives too — that it avoids upsetting entrenched interests.

Working to improve the TILMA is also going to be time-consuming. We've had 12 years of the TILMA and the . . . or I beg your pardon, the AIT, and it's a time-consuming operation, especially in the important area of regulatory convergence. It's hard to make progress when we're sitting down, talking — 13 governments — about the contents of a first aid kit for example. The TILMA model, which is to say everything is going to be mutually recognized, cuts right to the chase and puts the onus on regulators to justify exceptions. The AIT model allows the status quo to drift as it has.

Also in the negative in terms of AIT, progress can be held up by one or two parties. We've seen that with the energy chapter where we have one provincial holdout and have been unable to achieve an energy chapter under the AIT after 12 years.

A sort of a sub option of the last one is to enhance the AIT's mechanism for resolving disputes. This, I think, would be a tremendously effective thing especially with respect to labour mobility. If individuals who are denied the ability to work in another province had better access to the dispute settlement system of the AIT, we would probably see a lot less discrimination against workers from other provinces.

On the negative side, I think improvements to the dispute settlement system would be very difficult to negotiate simply because not every government but a certain number of governments in Canada would resist having to be bound by dispute settlement decisions that went against what they considered to be their legitimate interests.

Another option is to work much harder to step up the efforts insofar as regulatory convergence is concerned. We hear from the business community that this is a very, very critical area of interest to them. Efforts to improve regulatory convergence within Canada dovetail nicely with what we're doing in discussions with Europe, in discussions with Mexico and the US [United States], and it is something that is underway in other fora.

On the negative side the negotiating format is not clearly defined. There isn't quite the same institutional procedures that exist under the trade agreements, and so it could be subject to a great deal of drift, and it also lacks the political, high-level political buy in that you get from bona fide serious trade agreements.

Other sectoral agreements and I mentioned the 2006 interim

agreement on agriculture, so we have a precedent for that. The advantage of these is they could be specifically tailored to meet the needs of Saskatchewan. You could seek out common, like-minded trading partners and sit down and negotiate with them, much as you did with the agreement on agriculture. And it continues the cause of trade liberalization. It means that you keep that bicycle rolling which is very important.

On the negative side again we have the balkanization argument. It might be difficult to find parties with similar interests. And indeed if you find parties with similar interests, they might not be sufficiently similar to be worth taking the trouble to enter into agreement with. Ideally you want to find someone who has quite a different set of interests, and so there's more scope there for co-operation. Also more and more agreements mean more and more work, more and more difficulty making sense of it all, which strains trade policy resources which are already strained.

So in terms of final thoughts, I think it's important to note that the TILMA's generally been a very positive thing. It's renewed interest in the cause of internal trade in Canada. The commitment to the TILMA is very strong at the political level. In British Columbia and Alberta, the next two years it's turned over to the officials to see what they can do with it. But the fact that the ministers, the key ministers and the two premiers are particularly committed to this is especially important, and it speaks well for its chances of success.

We're right now in a new economic reality. When Patrick Grady, my colleague, and I were doing work back in December and January on this file, I spoke to the internal trade reps across the country, and I heard time and time again from them that the era of the AIT was the era of protectionism — protecting jobs, protecting investment, protecting opportunities. We're now in an era where it's important to attract the kinds of skilled workers that we need to move our economies forward. So it's very important right now to take the opportunity of these kinds of agreements to ratchet down protectionist policies that just frustrate the movement of workers, the movement of research, innovation, investment. And in that respect the TILMA is important.

And the final thing I'd say about the TILMA, well in departing from the consensus model that we've had under the AIT, it signals a new era, a new approach to trade liberalization. It puts a lot of pressure on governments, but it holds great promise.

Thank you very much, Madam Chair, and I wish you the best of luck in your deliberations. I look forward to hearing how you come out, and I'd be happy to answer questions. I don't know if it's now or after officials from the department speak, but I'm in your hands.

The Chair: — Thank you. Thank you very much for your presentation. You've covered a lot of thoughtful information, and I do have a speaking order. I think it's best to entertain the questions now to Ms. Macmillan's presentations so that there's the continuity, and then we'll do the same thing for the officials. With that I have a speaking order of Ms. Crofford so far.

Ms. Crofford: — Okay. I'm sorry. I do have a few questions here so that might slow us down just a little, but I guess that's the point, is to be thoughtful about this.

There's a couple of times when it mentioned that the negative impression that investors might have of our trade environment, and yet there seemed to be an implication earlier on in the process that in fact the US and Europe have an even more complex trade environment. So who are we being compared to when people are making investment choices?

Ms. Macmillan: — That's an excellent question. I think that the perception doesn't serve us well. I don't know that the perception has any real basis in reality. However the perception is there.

And I'm a subscriber to *The Economist* magazine, and I dare say that easily a tenth to 15 per cent of the time, *The Economist* coverage of the Canadian economy has to do with the fact that we're rife with internal barriers.

In fact there was a recent article about barrier bashing, and the recent, the most recent IMF, International Monetary Fund, report about Canada signals this as an issue that demands serious attention. It was the first item that the OECD indicated was critical in terms of enhancing Canada's productivity. The perception is there. And whether it's valid or not, it is there. And so I think it demands, I would argue, some kind of grand gesture to signal to investors and our multilateral trading partners that we're interested.

There have been studies — in answer to your question about the US and Europe — there have been studies on the barriers that exist there. Patrick Grady and I had a look at that, earlier this year as a matter of fact, and it obviously depends on the sector that's being examined. The US seem to have more preferential procurement programs than we do. We are relatively open in terms of . . . We're made some great progress in that area.

On the other hand, Europe has much stronger powers under the Treaty of Rome to discipline member governments that want to impose barriers.

Ms. Crofford: — So the question really is, what is the grand gesture? For example, I don't off my second born child because the first born child thinks I like them better. And so the question is whether you have a perception problem and whether you need to do better on your communicating your trade environment. Because when I've been to the US, the US is a quagmire of regulatory . . . I mean, they've got all these little fiefdoms that are all doing their own regulating. And so I mean, I don't want a solution that solves just a perception and doesn't actually solve a problem.

But anyway, we're not debating it right now. But I do find that odd that we have a better environment, and yet these businesspeople, who I would assume make their decisions based on some rigorous investigation of the operating environment, aren't being rigorous in their investigation of the operating environment.

Ms. Macmillan: — Well if I could just turn to the one thing that is terribly important, it would be the securities, the overlapping securities and exchange regulations.

Ms. Crofford: — Okay.

Ms. Macmillan: — And I think that if we're going to signal anything to its foreign investor, what we'd be saying is all right, if you want to come and list on the TSE [Toronto Stock Exchange], but you also want to sell securities in Saskatchewan, you're going to have to go through a lot of overlap and so . . .

Ms. Crofford: — So that's a very specific thing, yes.

Ms. Macmillan: — That's, you know . . . If you're just talking bang for your buck, you know, that would be the first place I would go.

Ms. Crofford: — Yes. The second one is I just wanted a definition thing. What does it mean in the agricultural area — sanitary standards?

Ms. Macmillan: — Oh those are things that pertain to food safety generally so things like contents of food, the inspection of food.

Ms. Crofford: — And so would this be anything like the recent announcement where Canada either has or is considering — I didn't read the newspaper recently enough to know where that went — lowering our standards for pesticides and whatnot on foods in order to harmonize with US standards?

Ms. Macmillan: — That would be, yes an interprovincial sanitary, phyto-sanitary initiative, yes. That would fall under that, this as opposed to an interprovincial. We have international . . . I mean the federal government administers some of these, and the provincial government, and an example is meat inspection. Every, every carcass that is processed in a meat inspection plant is inspected both by provincial and by federal inspectors, and so it's that kind of thing we are talking about in the internal market context with respect to agriculture.

Ms. Crofford: — Yes, because the thing that really I guess strikes you as you listen to all this is . . . Let's take the band-aid example, a good one for now. Even if you have one standard, someone has to set it. So who decides who sets the standard — whether it's a professional organization, a medical organization, whatever? Who decides who sets that standard to get at one standard?

Ms. Macmillan: — Well in the case of a great number of things, they fall under the jurisdiction of the provincial governments, so the provincial government in the case of Saskatchewan would have a standard regarding first aid kits . . .

Ms. Crofford: — No, no, but in the new regime of removing irritants, who decides?

Ms. Macmillan: — Well I'm just getting to that. What would happen then is the Government of Saskatchewan could decide that it would be quite happy in the case of first aid kits to mutually recognize the standards of Alberta or/and British Columbia. It could decide that they would look at the Alberta and British Columbia standards and say, that would do as far as we're concerned. You know, they would satisfy themselves that there were some legitimacy to the standards that existed in those other provinces and say we would not require an Alberta or a BC firm to come with a Saskatchewan-specific first aid kit because we're satisfied that the Alberta and BC standards are

adequate.

Ms. Crofford: — Yes, well that one just strikes me as somebody who hasn't figured out how to delegate a decision that they really hardly need to make.

Ms. Macmillan: — Well I think you're absolutely right, and I think this is what I'm talking about when it comes to low-hanging fruit.

Ms. Crofford: — Yes.

Ms. Macmillan: — I think there's a lot of things like that that, you know, people get excited about. But when you really look at it, it's not that big a deal.

Ms. Crofford: — But just like now, someone still has to decide. So does TILMA effectively just change who decides that? Or what is the change from the current situation where someone still has to decide?

Ms. Macmillan: — Well you, in the case of the Government of Saskatchewan, you certainly would still decide what Saskatchewan-based firms would do in these important areas. But if a firm, a supplier from another province wants to come to do business with you and you've decided that that business has a licence in Alberta, you're not going to require them . . .

Ms. Crofford: — So we just decide to accept the Alberta standard.

Ms. Macmillan: — Exactly. You're not going to require that business to re-licence provided they can prove to you that they have received a licence in Alberta.

Ms. Crofford: — Okay, that makes it clear. On the business subsidies, we sometime ago put in a manufacturing and processing benefit in order to encourage manufacturing and processing in the province. Would that be considered a subsidy?

Ms. Macmillan: — That's an excellent question. The issue of subsidies is extremely difficult. I spent five years as Vice-Chair of the International Trade Tribunal. We did anti-dumping, countervailing duty work with respect to international subsidies and it's a complicated area.

If somebody wanted to challenge your subsidy on manufacturing and processing, first of all you'd have to have a challenger. So you would have to have a firm from outside the province that felt that your manufacturing subsidy somehow disadvantaged them.

Ms. Crofford: — Made our produce cheaper or something.

Ms. Macmillan: — That's right; that's right. And the standard would have to be material injury according to the way the TILMA has been written. The challenger would also have to establish that that subsidy has a trade effect, so in other words that the recipient firm in Saskatchewan actually traded the good. So it was something that, you know it made widgets and it sold widgets to the province that is challenging the subsidy, and that was in turn materially injured that firm.

And the third thing is that they would have to show that the subsidy was somehow incompatible with the requirements of the TILMA so that it couldn't . . . if it fell under the area of legitimate objectives. For example if it was in the area of environment subsidies or Aboriginal subsidies, etc., those things are exempt from the TILMA. They're not covered by it. So it really is a multi-step thing.

First of all that you have to have a challenger. Secondly, it has to have a trade effect. Thirdly, it has to be incompatible with the TILMA and not fall within any of the areas of exceptions.

And if that were the case, yes it would be, you know, it could end up being successfully challenged. I look at the fact that in international trade we have these laws that govern subsidies, and yet we continue to give a lot of subsidies in Canada, and so it hasn't fettered our ability to do that in a lot of ways.

Ms. Crofford: — Now I've got two more questions; I don't think they're overly lengthy. When you talked about legitimate exclusions from health, environment, etc., are these exempted on a sector basis or on a program-by-program basis, or how are they done?

Ms. Macmillan: — What they do is they say it's a global exception. They are contained in . . . there's a list of them that exist in the agreement, and they pertain to anything that basically . . . I wish I could find it here for you. Perhaps I could undertake to do that . . . It's page 3. Essentially anything that governs the animal health, plant health, environment, etc. would not be considered. Parties could say in their own defence, I am allowed to retain my measure; I'm allowed to keep my program because it falls under this rubric.

Ms. Crofford: — Now I guess I am being a little more difficult than I thought because back to this situation federally where we had to lower our standards to harmonize with US produce growers, what agreement would that be under? Would that be under NAFTA or what the heck would that be under?

Ms. Macmillan: — No, I think the federal . . . as my understanding is that the federal government decided to do that on its own accord, under pressure from some of our horticultural producers who felt it unfair that we were subject to higher or different standards than were imposed on imports coming into our country. So it wasn't a trade agreement that precipitated that. It was a decision.

Ms. Crofford: — Yes, see that one is just tough for me because the first thing that doctors do when anybody has cancer is tell them not to eat fruit and vegetables with all that crap on them. So anyway, I'll just leave it there. That's just a personal bugaboo there.

Now this other one about discrimination against workers from other provinces, what are the discriminations? I mean, aside from not knowing the person who's doing the hiring, I'm not sure what discriminations we would be talking about.

Ms. Macmillan: — That would be things like labour, you know, where there's a whole host of tradespeople and professional workers that have to have professional qualifications.

Ms. Crofford: — So you're talking about the interchangeable . . .

Ms. Macmillan: — I'm talking about things like nurses that, you know, they are a member of the nursing association in Manitoba and have to re-qualify if they move to Quebec. Or it's rife in the area of construction trades for example. When I first started doing work on internal trade, a hairdresser couldn't cut hair in Alberta unless she or he had somehow signed on with some body. So this is the kind of thing that we're talking about. And we've made some excellent progress in this over the time of the AIT, but they continue to persist.

Ms. Crofford: — See, I met Pierre Pettigrew when I first worked on this file in '95, I think, and it seemed to me that professional associations were given five years to make agreements with their counterparts across Canada. Well we're way past five years. What happened to that?

Ms. Macmillan: — Yes. This is the kind of slippage that we talk about with respect to the AIT. The ministers have established a new deadline of April 2009, and they say it will all be done then under the AIT. And there has been progress . . .

Ms. Crofford: — That's the same time that the TILMA kicks in.

Ms. Macmillan: — Exactly.

Ms. Crofford: — Yes.

Ms. Macmillan: — They'll be able to celebrate together.

Ms. Crofford: — Well there you go. So I guess a deadline isn't worth much anymore. Anyway thank you very much.

The Chair: — Mr. Weekes.

Mr. Weekes: — Thank you, Madam Chair. Thank you, Ms. Macmillan. I think that was very interesting and will be a fruitful presentation for us to look at in the future. I've got a number of questions, but the first one is just to pick up on Ms. Crofford's comments about labour.

The balance of this week is going to be taken up by presentations by union and labour groups. And from their public announcements I think generally it could be said that they're at least fearful of TILMA-type agreements and if not outright against it. Could you elaborate a bit more, just outline some of the . . . well, address some of their fears that Alberta and BC unions obviously would have had and how that's been incorporated into their agreement and really try to address some of the union and the workers' concerns, possible concerns about TILMA.

Ms. Macmillan: — Sure. You don't want me to outline their concerns because this is my time, eh?

Mr. Weekes: — Well just give me an . . .

Ms. Macmillan: — But no . . .

Mr. Weekes: — Maybe speak about what went on in Alberta

and British Columbia to address their concerns.

Ms. Macmillan: — Yes. I think that . . . I've read their material. In fact Erin Weir who is going to appear before you later from the Canadian Labour Congress, he and we have collaborated together on this issue, and so I know they're serious and have studied it in some detail.

I'm a veteran of the free trade wars because, when I worked with the Canada West Foundation and in fact the C. D. Howe in Toronto, I spent a lot of time arguing about how the Canada-US agreement and the NAFTA and later the Uruguay round of WTO negotiations were going to have a very negative effect on our ability to govern our own social policy, environmental policy, etc. And I guess I have a little bit of scepticism about that view. I think that we have been able . . . I think that most Canadians, in fact the overwhelming majority of Canadians would agree that these kinds of agreements have in fact enhanced our standard of living and haven't materialized in the kinds of problems that were prophesied at the time. I think a lot of the opposition that the labour movement has to the TILMA is much like what it had to the Canada-US agreements.

And so that's, you know, that's my bias. I think there have been efforts made to safeguard important areas of provincial jurisdiction. I think it's quite black and white in the TILMA as it is in the AIT that social policy is carved out, environmental policy is carved out. There's animal health welfare, etc., is carved out. There's always going to be some fettering of economic decision-making power when one enters into these sort of agreements. That's the very nature of them. The question is for open economies that are highly dependent on trade, these kinds of things actually offer more guarantees than they do risks as far as I'm concerned because they create a rules-based system where parties answer to the kinds of commitments that they make in an impartial way. And as long as you give individuals access to the dispute settlement systems, then the outcome is a good one.

So that's sort of where I'm coming from. And I know you will be hearing a lot from those in opposition to this agreement because they tend to, you know, be the ones that come to these kinds of committee meetings. And so that's, you know, they have the trade policy resources to . . . they have the resources to spend studying these agreements, whereas an individual nurse or a worker in or indeed a business that is seeking to an opportunity in the province next door does not have economists like me that can fly out to Regina and spend time talking to you people. So that's, you know, that's where I come from.

Mr. Weekes: — Thank you. That's what I was asking because I'd said most of this coming week is going to be taken up with presentations from the union movement, and I think we generally know where they're coming from. And the feeling is through these various international and bilateral agreements at the end of the day, if there's jobs created that's good for workers and good for everybody. But just that's certainly something that we as a committee need to address and get a handle on and really cover all those aspects.

I'd like to move on to agriculture. In Saskatchewan and Western Canada basically, our agriculture is pretty wide open, free from any trade restrictions now, other than supply

management which we don't have a lot of in Saskatchewan or Western Canada. Is there any other concerns about non-supply management sectors in agriculture that need to be opened up more or you have identified as problems?

Ms. Macmillan: — There's a lot of work that could be done in agriculture. There's a host of technical restrictions that frustrate the trade in goods, agricultural goods, food goods across borders. There are things such as, strictly in the horticulture area for example, the prohibition on the movement of apples of a certain size between one province and the other for jam makers. There is a host of prohibitions that exist in the meat packaging area that prohibit interprovincial movement in that.

It is a very, very difficult area to make progress in because the people that are attached to the status quo will point to the fact that we are undergoing agricultural negotiations as well in the international trades sphere, and so they're reluctant to unilaterally liberalize within Canada for fear that we'd be giving something away for free when we have major agenda in terms of opening of the grain sector, for example, to greater exports from Saskatchewan. And so it's a very, very difficult area but there . . . It's the single largest area for internal trade restrictions and indeed foreign trade restrictions.

Mr. Weekes: — On crop insurance, which is a federal-provincial program for farmers, does TILMA affect that in any way?

Ms. Macmillan: — I'm sorry I didn't catch the name of the . . .

Mr. Weekes: — Crop insurance.

Ms. Macmillan: — Crop insurance. I'm sorry I don't know. It's a federally legislated program is it not? Or do you have a specific . . .

Mr. Weekes: — It's a federal-provincial program. It's funded three ways.

Ms. Macmillan: — I can't imagine that it would, but I'm afraid without looking at it in detail, I couldn't pronounce on that.

Mr. Weekes: — Thank you. The other item is municipalities have generally come out with some concerns. The way I understand the TILMA agreement, that's something that's going to be negotiated over the next couple years. I guess my question is where should . . . I don't know how big of a concern municipalities should have actually about it. I guess at the end of the day the point of these agreements is to get goods and services at a cheaper rate and at a standard that everyone recognizes, but I guess municipalities still have a problem with that. How do you feel that is going to be addressed or where are the concerns that you see that lie in those areas that municipalities have?

Ms. Macmillan: — Well I think with respect to purchasing of municipalities, they are already covered under the Agreement on Internal Trade. The Agreement on Internal Trade has provisions that govern procurements made by municipal governments. Now the TILMA extends those provisions a bit, but not significantly. So I can't say that there'd be a significantly extra burden on municipalities in terms of

compliance. But I understand you're going to hear from them later on as well, but they've already been brought into the tent in the AIT, so the precedent is already there.

Mr. Weekes: — Thank you. Just one more point. You talk, you spoke of a possible up to \$5 million penalty if a province doesn't uphold to agreements or part of agreements.

Ms. Macmillan: — Yes.

Mr. Weekes: — Would you elaborate on that? Just some questions around that. How is that determined, and where does the money go if there's a cheque written?

Ms. Macmillan: — Why that's a good question. I don't know . . . If there's a successful challenge of a government measure, and so if a government measure is challenged, such as margarine colouring in the case of the Government of Quebec which has . . . I don't know if you're familiar with that, but they require that margarine in Quebec be this outrageous colour so if you were to look at it, you would never want to buy it. And this has been found on a number of occasions to be incompatible with the requirements of the Agreement on Internal Trade. And Quebec has decided not to comply with the recommendations of the AIT's dispute settlement body. And though AIT's dispute settlement recommendations are not final, they can be ignored.

And if the TILMA regime were to apply and a government were to disregard the requirements or the findings of a dispute settlement body, the option would exist for the government to be fined up to \$5 million. Now it could be less, but it could be up to \$5 million. And that is intended to simply encourage the governments to comply with what is seen to be their obligations or what the panel has determined to be their obligations.

I don't know where the money would go. I don't think it says in the TILMA agreement, but it's a good question. I'm going to . . . The first chance I get, I'm going to figure that out.

Mr. Weekes: — Thank you very much.

Ms. Macmillan: — Thank you.

The Chair: — Mr. Chisholm.

Mr. Chisholm: — Thank you, Madam Chair. One of your comments you suggested that the BC-Alberta agreement was tailored in the energy field, was perhaps more tailored to BC-Alberta's situation than, I assume we're suggesting, Saskatchewan. I just wondered exactly where were you coming from there.

Ms. Macmillan: — Well as I understand it, Mr. Chisholm, there are very . . . The energy interests across Canada vary depending where one is located, and so there are offshore oil drilling interests in Atlantic Canada for example that might not come into play for provinces like Alberta and British Columbia. There are wheeling — electricity wheeling — issues that come into play between Labrador, the province of Quebec, province of Ontario. They might not be an issue with respect to Alberta and BC. So the Alberta-BC issues relate more to the specifics of that, which I believe has something to do with access of oil pipeline, oilfield drilling, etc. I'm not an expert on energy, but I

have been told that the Atlantic Canada dimension for example is not reflected in the TILMA. So Atlantic Canada might not find the energy provisions of the TILMA to be satisfactory as far as they are concerned.

Mr. Chisholm: — Thank you. I guess I was just trying to determine if there was some big difference in the energy sector from BC, Alberta, and Saskatchewan, and that's really not the case. It's further away that the energy situation is different than in Western Canada.

Ms. Macmillan: — I think so.

Mr. Chisholm: — Second question. Ms. Crofford made reference or asked a question about subsidies and my understanding . . . Our manufacturing and processing incentive, it's not a subsidy as such because it falls through the tax system, and the tax systems through the agreement would be excluded is my understanding. There is no provision that BC, Alberta, and/or Saskatchewan's tax systems have to line up. So if a tax credit was offered for example in the manufacturing processing industry in Saskatchewan for Saskatchewan taxpayers, then I don't see that that would be offside with the TILMA agreement.

Ms. Macmillan: — I don't know, Mr. Chisholm, whether that's right or not. I know in the case of the WTO subsidies and the subsidy provisions of the NAFTA, tax credits are seen to constitute financial benefits which then are interpreted as subsidies for the purposes of those agreements. So you would have to look at it in detail.

I know what you're saying, that the tax regimes — you know, things like the provincial sales tax — are not going to be affected by the TILMA agreement. Income tax rates would not be affected by the TILMA agreement. But I think that it's quite possible that a tax credit or a tax avoidance or a tax exemption, etc., would be interpreted as a subsidy under the TILMA agreement.

But not having studied it in detail, I wouldn't want to pronounce on it, but I wouldn't want to either leave you with the impression that it would definitely be out, either.

Mr. Chisholm: — Just one further comment. The manufacturing and processing tax credit that we have is basically to offset the fact that we have PST [provincial sales tax] on the building of new facilities and Alberta doesn't. So it would seem, it would seem kind of offside to think that we were putting ourselves offside trying to get on the same level as our neighbours.

Ms. Macmillan: — No, no I see that. And as I was saying to Mr. Chisholm earlier, any . . . First of all, for that to be made impossible, for that program to be discontinued, you'd have to find an Alberta firm that would be willing to challenge you. And secondly, you would have to show that it did indeed affect trade. And thirdly, you would have to show that it was incompatible with what the requirements of the TILMA are. So you know, it wouldn't be a slam dunk.

Mr. Chisholm: — Right.

The Chair: — Mr. Yates.

Hon. Mr. Yates: — Thank you very much. I have a number of questions, starting with the issue of security regulation. I'm sure you were well aware and probably understand this better than most of us that we currently are under review and looking at the passport system in Canada that will significantly change the regulatory security regulation in Canada. Could you comment on whether or not those changes in the passport system and that in fact in effect enhance and meet the standard you talked about that other governments are looking about at regarding our, you know, the fact that we have 10 independent security regulators now in Canada?

Ms. Macmillan: — Yes. My understanding, Mr. Yates, is that the OSC, the Ontario Securities Commission, would not participate in the passport system. And given that something like — I can't remember the exact number — it's upwards of 75 per cent of listed capitalizations in Canada are through the OSC and that would seem to me a big drawback. The other thing is that . . . and my understanding of the passport system is it still would just allow for mutual recognition as opposed to a bona fide single regulator.

So I think ideally we would like, in the interests of enhancing our investment climate, to evolve to a system where we have a single regulator. And I don't, I have no opinions really on what it should look like, but I know there have been people that have spent some time studying this, including Purdy Crawford and others, and have come up with some very specific recommendations in that respect. I understand as well, by the way, that Alberta isn't willing to play ball with security. I don't know whether it's with the passport system, but it's not willing to co-operate with the other provincial regulators in this area either. So it looks like we're still a long ways away from . . .

Hon. Mr. Yates: — Thank you very much. That goes to another issue. The method we were moving to was one of mutual recognition, and that is largely what TILMA does as well. Instead of creating a single set of regulations across the country, it creates an environment of mutual recognition.

Could you comment on, if you have 12 different sets of regulations dealing with an issue in a sector across Canada, and you may have mutual recognition about one another on the enforcement of those regulations, and/or does this create an even greater problem than you would have today in that the enforcement agencies from one jurisdiction would have a great deal of difficulty enforcing any set of regulations based on the fact of mutual recognition across the country.

Ms. Macmillan: — Yes, I think the best way to think of it is in terms of a specific example. All right. So if you're a stockbroker or an insurance agent and you were registered in the province of Saskatchewan, and you have to jump through all the regulatory hoops, and again the TILMA is silent on what those regulatory hoops can be. Saskatchewan's free to establish what ever kind of regulations it wants. But if you have done that and you want to sell . . .

I tell you, I've come up with this example myself. I have a cottage across the border in Quebec and a home in Ottawa. And I have an insurance agent who has done a fabulous job of taking care of our needs for years and years. And I called him and said, could I please get you to insure the place in Quebec — little

place, not very fancy. But in case it burns down, I need some insurance. Can't do it. Can't do it. I have to go and find myself a Quebec insurance agent.

And that's the kind of thing that the TILMA is saying it will do away with. If there's an accredited . . . If my insurance agent met all the requirements of the Ontario system and answers to the Ontario system, could be fired by the Ontario system or taken to court by the Ontario system, he is permitted to sell me a policy on a property that I own in another province. The same applies to stock brokers. The same applies to commercial vehicles that in the case of Alberta and BC operate both sides of the border. If a vehicle notionally spends most of its time in British Columbia and goes one day a week to Alberta to deliver something, it is not required to meet another set of regulations.

I don't see . . . You know I think the key is that there's one single regulator that has to answer for any kinds of problems that that service provider might get into, but that that service provider needn't have to accredit across the country. And so I don't see that as that much more difficult. I think that you'll actually see it's quite a bit easier.

Hon. Mr. Yates: — For professional recognition issues I think it is fairly simple, but I think it becomes much more complex as you get into regulations that affect sectors of business within the economy. And I'm not sure I have a complete understanding of this either. But if you have a trucking firm that operates across Canada or wants to operate across Canada, and you have 10 different sets of rules today, they can operate by the rules in which the jurisdiction that they are in fact licensed under. And if those rules . . .

Ms. Macmillan: — Are you — I'm sorry — are you asking that or are you . . .

Hon. Mr. Yates: — If under the TILMA type of arrangement, that's what would be the outcome. Correct?

Ms. Macmillan: — Well there are a couple of different things that would come into play in the case of trucking. I think there's the licensing. And so yes, you're right; there would be only a requirement to license in one jurisdiction. But in terms of operating across the country, in trucking there are a myriad of regulations covering dimensions, weights, wagon hitches. I mean it's a mess. So I think that there would have to be not a mutual recognition system as much as a . . . If we were to put it across the country, we would have to have some kind of reconciliation and development of common standards or harmonization of standards to make that possible.

Hon. Mr. Yates: — So TILMA wouldn't deal with any of those significant sectoral issues across the country then.

Ms. Macmillan: — Well because it only pertains to Alberta and BC, no it isn't dealing with those issues now. It's dealing with them in an Alberta and BC context, yes.

Hon. Mr. Yates: — Right. But if it were on an national basis, it wouldn't deal with any of those sectoral issues then.

Ms. Macmillan: — Well I understand the way it would work would be that if other provinces wanted to become a party to

the TILMA agreement, they would sit down with Alberta and BC and work to harmonize things like trucking, etc.

Hon. Mr. Yates: — Okay.

Ms. Macmillan: — So you would have to, you know, accept what the TILMA provides in those areas.

Hon. Mr. Yates: — Okay. Now the TILMA framework today between Alberta and British Columbia, basically the deal today is it's a sign on as is, no negotiations for any new jurisdictions looking to enter the arrangement. Is that the best way to form a trade investment arrangement between provinces?

Ms. Macmillan: — Well I don't know that . . . I think you have the trade . . . I understand you might have witnesses later on from Alberta and BC, so they'd be the people to ask what that deal would be. I don't know what they would require. Presumably they would welcome other parties, and so they might be perfectly willing to make some concessions.

I know they're busy for the next two years trying to, you know, make this agreement work for the two of them. But I don't know what kinds of conditions they would put on accession, I'm afraid.

Hon. Mr. Yates: — One last question dealing with regional concerns, I guess, issues that are being brought up by municipalities and others. Often today cities, communities, regions of the province will put in place incentives for economic development in their quarters or communities around the province, which would include in some cases tax incentives, tax exemptions for a period of time, property tax exemptions or various . . . perhaps free land to build your facility on. Would those types of regionally controlled economic development activities be curtailed under the provisions of TILMA?

Ms. Macmillan: — Well as I said to Ms. Crofford earlier, you would have to have . . . for them to be curtailed, you would have to have somebody challenge them in another province. So some competitor of the firm that you had provided the tax advantage to would have to come forward and say that I want to challenge this. That's the first condition.

The second condition is that the subsidy or the tax incentive would have to affect trade in some way, so that firm would have to be producing something that it was selling outside the province. So that's condition number two.

The third condition is that that trade would have to actually materially injure somebody in another province.

And then the third condition is that it would have to be shown to fall . . . it would be somehow incompatible with the agreement. If it fell under the area of legitimate objectives for example, which are well-defined in the agreement, no, it would not be curtailed in any way.

So, you know, there's a multi-stage process to get to the point where subsidies are prohibited and that you would have to go down that road.

Hon. Mr. Yates: — Thank you. I've finished. Thank you,

Madam Chair.

The Chair: — Well I'm looking across at my members and seeing if there are any further questions of our presenter, and if not, I think, committee, what are your wishes at this point? We could have a break. First I'd like to thank, on behalf of the committee members, Ms. Macmillan for your presentation and the response that you've given us too, in a clear way, of the questions we've had. And your knowledge base has been very helpful to us. So thank you very much.

Ms. Macmillan: — Thank you, Madam Chair.

The Chair: — Welcome back to Saskatchewan, safe travels.

Ms. Macmillan: — Thank you very much, Madam Chair . . . [inaudible interjection] . . . Oh it's beautiful here. Thank you.

The Chair: — Committee members, we haven't scheduled breaks in per se to any of the days. I would bow to your wishes. Would you like me to feel out how presentations are going and then schedule a few minutes break each day accordingly? Or did you want to just have a take-your-own-break kind of process? I would say right now we've had a lot of information, and we might need about 5- to 10-minute break at the longest. So if we said a five-minute break before we get back to the department representation, I would see you back here at 2:45.

[The committee recessed for a period of time.]

The Chair: — Order, order. Sort of a relapse to session. Before we begin with the departmental representation and presentation, there's another question I would ask of committee so that Mr. Kaczowski could make the required arrangement. On Friday of this week we had a cancellation of the last presenter of the afternoon. And I was wondering, if it's the wish of the committee, that we could move then John Hopkins from the Regina Chamber of Commerce to right after the mayor of Regina at noon. And then we could adjourn, and you would have the afternoon to do other business. Would that . . . [inaudible interjection] . . . On this Friday.

We've scheduled a break, and then we were going to have two presentations after lunch. What we could do is ask Mr. Hopkins to come and present at noon. We would adjourn about 12:45, 1 o'clock and then have the rest of the afternoon to do other business.

Ms. Crofford: — Actually I have another commitment that afternoon. I didn't realize we were sitting in the afternoon Friday.

The Chair: — So that would accommodate . . . Is that all right with the committee if we would do that?

Mr. Weekes: — You say other business. Does the committee have other business?

The Chair: — No. Other business that you would want to attend to.

Mr. Weekes: — Our own business.

The Chair: — Yes. Constituency, driving home, those kinds of . . .

Mr. Weekes: — That would be fine with me, yes.

The Chair: — All right. We would ask if you could do that for us please. Thank you very much.

All right. We will move then to the three presenters before us. If you'd like to give your name to us and what area you're working in. I'm not certain. Are you all going to present, or one person present and with the help of others you would answer the easy questions and they would do the difficult ones?

Mr. Osborne: — Yes. Two of us will present — Bob Donald and myself. And Linda is the trade counsel for us in Justice, and she's going to answer all the hard questions on how to interpret the provisions of the AIT and the TILMA.

The Chair: — Good.

Mr. Osborne: — So with that, I am Paul Osborne. I'm the assistant deputy minister of trade policy and international relations in the department. And on my left is Bob Donald who is the director of the trade policy branch and Saskatchewan's internal trade representative at the officials' level. And Linda Zarzeczny, as I mentioned, is our trade counsel in the Department of Justice.

So with those introductions, we have a three-part presentation to make to the committee today. I will address the first two. And the first part is going to be a summary of the main contents of a document which has been provided to you, which is *Saskatchewan's Internal Trade at a Glance*. And this is intended to give you an overview of internal trade and its contribution to Saskatchewan's economy.

The second part is going to be a review of the conclusions of the economic analysis that's been done on the costs and benefits of internal trade in Canada and Saskatchewan, including the external economic analyses that the department commissioned on the TILMA. So we'll give you a rough and ready conclusion or summary of what they concluded.

And then thirdly Bob Donald will offer, based on Ms. Macmillan's excellent work, he's going to address the remaining issues in internal trade as Ms. Macmillan has identified them. And he'll outline for you how those issues are currently being addressed nationally in the AIT renovation exercise and regionally by the TILMA. So that's the lineup this afternoon.

So with that, I'll move to part one which is the contribution of internal trade to Saskatchewan's economy. Let me start by saying that internal or interprovincial trade is an important feature of Saskatchewan's economy. In total its value in 2005 was the equivalent of about 68 per cent of our entire GDP. Broken down into exports and imports, our domestic exports amount to 28 per cent of our GDP, and our domestic imports amount to 40 per cent of our GDP. Said otherwise, about 28 per cent of every dollar earned in Saskatchewan now comes from our exports to other Canadian jurisdictions, principally Ontario, Alberta, Manitoba, BC, and Quebec, in that order. And

although it's difficult to be very precise, we estimate that our domestic exports support up to 20 per cent of all jobs in Saskatchewan.

Internal trade is now an important driver of Saskatchewan's economy as the minister suggested. For example since the AIT was signed in mid-1995, the value of Saskatchewan's domestic exports has grown at over twice the average annual rate of our GDP. In relative terms the contribution made by our internal exports to the province's overall growth rate over that period is similar in magnitude — so you can have something to compare with — with business capital investment in Saskatchewan. It's of roughly the same magnitude.

In recent years though, Saskatchewan, like every other province except Ontario, has run a deficit in internal trade. That is, we have imported more from other provinces than we have exported to them. Our internal trade deficit though is not necessarily a bad thing for our economy mainly because it's typically more than offset or paid for by our annual surpluses on international trade. It's also important to remember that the reason we export is so that we can pay to import goods and services that others produce more efficiently than we can. And competitively priced imports are essential to our industry's competitiveness, and they're also beneficial to our consumers.

Over the longer term, say over the past 25 years, the committee should know that our net internal exports, meaning our exports minus our imports, have been in surplus, and they've made an average 10 per cent contribution to the province's overall growth rate.

The data also show that Canada's and the West's internal trade growth and their overall economic growth have mirrored each other, which to some economists that is evidence that there are a few impediments to internal trade in Canada.

Saskatchewan's internal trade growth rate was faster than its GDP because our key internal trade partners have been growing faster on average over the past 10 years than we have. As I suggested to you earlier, in terms of our key internal trade partners, they are, in order of importance on the export side, Ontario, Alberta, Manitoba, BC, and Quebec. On the import side they are Alberta, Ontario, Manitoba, BC, and Quebec. It's the same five provinces basically in different order.

Alberta and BC currently account for less than half of Saskatchewan's total internal trade which means that our province must pay as much attention to the terms and conditions of access to the markets to the east of us as we do to those to our west.

Now turning to the composition of Saskatchewan's internal trade. About two-thirds of our domestic exports are high-value, manufactured products like machinery and food and commercial services, like transportation and warehousing or professional consulting, both of which of course help to diversify Saskatchewan's economy. At the same time the value of Saskatchewan's imports of commercial services and manufactured goods from the rest of Canada is twice what we export to it.

In terms of Saskatchewan's trade with BC and Alberta, our

exports to both provinces and our imports from Alberta are predominantly manufactured goods. However our imports from BC consist mainly of various commercial services. We find too that our trade with BC and Alberta involve industries whose local production makes up just over 40 per cent of Saskatchewan's GDP. Said otherwise, over half of Saskatchewan's economic production is not directly affected by our trade with BC and Alberta.

Further, those Saskatchewan industries that import the most from our two western neighbours, relative what they produce in our own province, are also the same industries that export the most to BC and Alberta. And incidentally that same pattern exists between Saskatchewan and the rest of Canada as well.

So what this pattern suggests to us is that further internal trade liberalization — whether through the national AIT, the regional TILMA, or otherwise — is unlikely to cause significant economic dislocation in Saskatchewan.

Finally, the focus of much recent discussion on internal trade concerns — its effects on provincial and national productivity growth, which most would agree is the key to long-term economic growth and rising standards of living at least in industrialized countries like Canada and provinces like Saskatchewan — so what is productivity? Well very simply it's the amount of output or production per employed person. And it grows if people work longer hours or if people's skills are improved or if they have more and better tools or capital to work with and/or if significant technological improvements become available.

And by the way it's important to note here that productivity growth does not automatically create more jobs. In fact it can do the opposite; that is, it can lead to job loss unless the economy as a whole grows faster than productivity and creates the new jobs needed to absorb the available labour.

In any case it's generally agreed that reducing or eliminating barriers to trade investment and labour flows can reduce distortions that act to fragment markets, inhibit competition, reduce innovation, and ultimately depress productivity and overall economic growth.

But here I would mention that market openness, usually measured as the ratio of trade to GDP, is considered to be one of the key ingredients of productivity growth. It's one of a small range of economic and social policy drivers that working together lead to long-term economic growth. And the committee should know that according to the OECD, Canada is already amongst the most open of all industrialized countries, both in terms of its international trade and in terms of its domestic, economic, and regulatory restrictiveness.

Within Canada, which is the focus of this committee's enquiry, the data show that Saskatchewan is now the second most open province to internal trade. Internal trade is therefore likely already making a strong contribution to Saskatchewan's productivity performance. In recent years Saskatchewan's productivity growth has been impressive. It's exceeded both the national and western rates, and it's closing the gap in average productivity levels that currently exist between Saskatchewan and its key internal trade partners.

So with that, that's the first part. That's our overview of the contribution to Saskatchewan's economy. Next I'd like to speak very briefly to the economic costs and benefits of internal trade liberalization to Saskatchewan.

In the making of public policy, one of the most important questions to ask is what's the size and nature of the problem to be addressed. That's because it's on the basis of the answer to that question that policy-makers decide how much effort to expend in fixing the problem, and what type of mechanism or instruments are most appropriate for the task.

More colourfully, on the issue of internal trade liberalization, the key policy question is whether the juice is worth the squeeze. Where the juice is the expected, economic benefits and the squeeze is the degree to which governments must constrain their policy autonomy in order to deliver the expected economic benefits. So this section of our presentation is about how much juice in the form of extra economic benefits Saskatchewan can realistically expect from further internal trade liberalization.

In the third and final section of our presentation, Bob Donald will address the squeeze portion, that is to say the squeeze on government's policy room to manoeuvre that the national AIT, the regional TILMA and other approaches involve. So now to the juice.

As Ms. Macmillan and many other students of internal trade will attest, trying to answer the economic costs and benefits question with any precision leads one into hotly contested territory. It's risky but I'll summarize by saying that the estimates of the Canada-wide costs of internal barriers to our national economy in terms of foregone income benefit range from a high of 1 per cent of national GDP, which is a figure estimated by a business association, to a low of 0.02 per cent, or 2 one-hundredths of a per cent of national GDP as estimated by several academic analysts.

Now this discrepancy matters a great deal to policy-makers. That's because in 2006 numbers they represent a difference between alleged national benefits of removing internal trade barriers of over \$14 billion or nearly \$460 per person and national benefits that are under 300 million or about \$9 per person.

Admittedly these are old estimates, and they don't fully take into account the reductions in internal trade barriers that have occurred since the national AIT was signed in mid-1995. Having said that, we notice that on Alberta's website on the TILMA, they still use the maximum 1 per cent of GDP estimate to conclude that all internal trade barriers — not just the ones that exist between Alberta and BC — are costing the combined economies of Alberta and BC over \$4 billion or about \$500 per person today. However if Alberta had used the minimum estimate of 0.02 per cent, their numbers would have to fall to 80 million or to about \$10 per person.

And if you apply this same range of cost estimates to Saskatchewan in 2006, they yield a total economic cost of Canada-wide barriers of a high of 450 million or about \$465 per person to a low of about \$9 million or about \$10 per person. Of course if you apply these cost estimates to just those internal trade barriers that exist between the three westernmost

provinces, the results for all three provinces would necessarily be only a fraction of those above-mentioned costs.

So turning now to the TILMA, our department commissioned the Conference Board of Canada — which I'll refer to as the board — to undertake an economic analysis of the impacts on Saskatchewan of joining the TILMA. We did so because the board possesses an economic model of the Saskatchewan economy. It is a proponent of extra AIT internal trade agreements such as the TILMA on productivity grounds, and it had recently done a similar assessment for BC.

Internal trade barriers are not like explicit duties or taxes. So they are notoriously difficult to quantify, and there is no generally acceptable economic method for doing so. In that context, the board employed a novel method for doing its impact analysis on the province's economy as a whole and on its main regions and industries. The method used was a combination of stakeholders' surveys and in-house economic analysis.

So to summarize the board's conclusions for Saskatchewan as a whole, it estimated that by joining the TILMA, the absolute size of the provincial economy and labour market would grow by just under one per cent or by close to \$300 million and by 4,400 jobs once the agreement's effects were fully realized.

In terms of impacts on Saskatchewan's seven regions, with the cities of Regina and Saskatoon being their own regions, the board expected them all to benefit but not uniformly. According to the board, the regional beneficiaries of TILMA accession are likely to be — ranked in order from largest beneficiary to the smallest — first Swift Current, Moose Jaw; second Yorkton, Melville; third Saskatoon, Biggar, excluding the city of Saskatoon; fourth Prince Albert and the northern administrative district; fifth Regina, Moose Mountain, excluding of course the city of Regina; sixth the city of Saskatoon; and finally the city of Regina.

Although the board didn't provide a similar overall ranking of industry-specific impacts in Saskatchewan from joining TILMA, you can infer from their report the following. There will be net positive impacts in such areas as agriculture, other primary industries — namely fishing, forestry, and mining — manufacturing, utilities, and wholesale and retail trade. On the other hand there will be net neutral or negative impacts in Saskatchewan in such sectors as construction, commercial services, non-commercial services, public administration, and the labour market, at least in the short term.

Finally the board reported that, based on 23 survey responses, Saskatchewan's business sectors believe that the regional TILMA is an improvement over the AIT for two main reasons. First the TILMA has a transparent and limited list of exceptions making it much easier for business to navigate that agreement when considering whether and how to trade and invest. And second, the TILMA's mandatory reconciliation of standards and regulations in all areas affecting regional flows of trade investment and labour is, if it actually occurs . . . And there was some skepticism demonstrated by business associations in Saskatchewan that it would actually occur. But anyway if it actually occurs, it's the most important business-inducing feature, according to them, of the TILMA.

So with that, after receiving the board's report, the department contracted two external academic economists, Dr. Eric Howe at the U of S [University of Saskatchewan] and Dr. John Helliwell at UBC [University of British Columbia], to review the board's report and to critique each other's reviews of that report. Their work was supplemented by discussions with several other non-governmental economists as well as work by an internal group of economists at Government Relations, Finance, and Industry and Resources.

In summary, Dr. Howe at the U of S thought that the board's numerical benefits for Saskatchewan were likely to be underestimated for the following three reasons. First, the board's survey method likely introduced a downward bias in expected benefits because since some respondents' businesses could be negatively affected by increased competition, they had an incentive to downplay the TILMA's benefits. Second, the board did not adequately take into account the less immediate but very important dynamic or productivity-inducing effects of the TILMA on the province's economy as a whole. And third, the board didn't adequately identify or discuss the economic costs to Saskatchewan if we didn't sign onto the TILMA.

On this last point, Dr. Howe contended that since nearly half of Saskatchewan's internal exports now go to Alberta and BC and since the TILMA is expected to boost the relative competitiveness of businesses in the TILMA region, Saskatchewan's businesses might become progressively less competitive and risk losing market share in this booming region.

Finally, in response to critics of the board's method, analytical method, Dr. Howe believed it to be as good as any other in the economic literature on how best to approach a very difficult issue of quantifying non-tariff barriers, and he felt that asking businesses directly affected by them in conjunction with more standard economic modelling is both a defensible and essential reality test.

Now in contrast to Dr. Howe's analysis, we heard from Dr. Helliwell at UBC that he thought that the board's analytical method and consequently its numerical benefits estimates were technically indefensible. He concluded therefore that the board's numbers were likely to be significantly overestimated. In fact Helliwell said that the board's estimated TILMA benefits for Saskatchewan could as plausibly be our TILMA costs; that is, they could be what we lose in terms of provincial output in jobs if we sign on.

Dr. Helliwell went on to say that even if one conceded that the TILMA will benefit Saskatchewan, its possible gains are likely to be only a small fraction of the board's 1 per cent of real GDP and jobs for the following four reasons.

First, interprovincial trade is already essentially unfettered as evidenced by the fact that trade intensities within and between provinces are already about the same. Second, the remaining differences in those trade intensities can readily be explained by other economic evidence, so they don't prove the existence of significant trade barriers, much less of significant gains to be had from removing them. Third, since the practical changes required to move from the AIT to the TILMA are very small relative to the analogous changes required by recent

international agreements, the TILMA changes can't, as the board contends, realize economic gains of the same or even greater magnitude than those international agreements. And fourth, even with the TILMA in place, Saskatchewan, according to Dr. Helliwell, will never achieve a completely level economic playing field with provinces like BC and Alberta that have greater capacities to tax and spend. The latter will routinely outgun Saskatchewan in spending on the other determinants of productivity like investments in physical infrastructure, public R&D [research and development], and human capital development.

Finally, Dr. Helliwell concluded that rather than join the TILMA, Saskatchewan's economic interests would best be served by continuing to work on a Canada-wide basis to first fix the AIT's disputes settlement mechanism and, secondly, to develop a menu of practical policy options for refining or removing regulations that are pointlessly restrictive.

So to conclude this section, I wanted also to add that while Dr. Brian Copeland of UBC economics was not formerly engaged by the department to review the board's report, he did provide the department with a copy of his review of the evidence paper on internal trade barriers that he did for BC in 1998. And like Dr. Helliwell in the current context, he concluded that at that time — and here I want to quote from his paper — the quote is, "The reality is that interprovincial trade barriers are already very low."

One consequence of this is that:

... efforts to liberalize interprovincial trade will have almost no effect on [interprovincial] trade flows.

Most of the ... [issues raised by critics] have to do with differences in regulatory policies and the discretionary use of these policies by provincial governments. I agree [and that is to say, Dr. Copeland agrees] that there are [very] serious issues at stake ...

But he thought that it was time to refocus the debate. He says:

The fundamental issues in the policy debate are not ... [principally] issues of trade. Rather they have to do with the appropriate division of powers between governments, the tradeoff between diversity and harmonization [in policies], and the proper role of government in influencing the direction of the economy.

And he concludes, "Instead of muddying the waters by framing the debate in terms of trade barriers, the focus should be on the real issue, which is regulatory reform."

So with that, I've ended my two sections of the presentation, and I'm now going to ask Bob to speak very briefly to the different approaches being taken by the AIT, the TILMA, and in some cases other mechanisms and forums for addressing the remaining impediments to internal trade in Canada. Over to you, Bob.

Mr. Donald: — Thanks, Paul. Good afternoon to the committee. I want to base my following remarks on Ms. Macmillan's and her colleagues' very recent and excellent work

which identifies the following sectoral barriers that remain to be addressed by Canadian governments.

The first, there's a number of trade-related issues including technical standards and regulations, government procurement, agri-food, energy, and securities regulation; second is the basket of investment issues including business subsidies; and third, labour mobility issues. And to this list I'd like to add and comment on a fourth which is the dispute resolution issue.

With the exception of securities regulation, these are essentially the same sectoral targets identified by the Council of the Federation's internal trade work plan on the AIT. They are also comprehensively addressed in the TILMA's alternative approach, and some are also being addressed in separate agreements and forums outside the AIT and TILMA frameworks.

At the outset I should mention that unlike the AIT, the TILMA as it exists today is more of a general framework agreement rather than a fully articulated trade deal. Much of its actual scope of coverage, including many of the toughest issues internal trade ministers have been grappling with in the AIT for up to 10 years, is still under negotiation in the TILMA deal between Alberta and BC. Consequently it's not clear whether and how the TILMA parties will succeed in addressing these issues, and it's very difficult at this stage to be as precise as one would like about its possible implications.

So the first trade-related area is that of technical standards and regulations. In the AIT the reconciliation, mutual recognition and/or harmonization of regulations and standards are addressed in its general rules section, meaning that its provisions in this area are meant to apply to all covered sectors in the AIT. In addition it is a theme that runs through several sector specific chapters including consumer protection, environmental protection, alcoholic beverages, and natural resource processing and communications where, reflecting the fact that there's a range of public interests involved in regulation, the injunction to reconcile is essentially voluntary or on a best efforts basis. The only exception to this is in the area of interprovincial commercial transport regulations and standards where the AIT requires mandatory reconciliation.

Finally it's important to note that at least with respect to regulatory differences between provinces, the AIT does not permit them to be the subject of trade challenges through that agreement's dispute resolution procedure.

In contrast the TILMA's approach to this set of issues is to: first, make mandatory the reconciliation of any existing and future standards and regulations that, and I quote, "... operate to restrict or impair trade, investment or labour mobility" across all sectors of the economy and all provincial and sub-provincial government entities except those that are explicitly excluded; second, subject these to a dispute resolution mechanism which includes the possibility of direct private challenges to government in this area; third, otherwise mandate co-operation to minimize differences and standards in regulations between parties when they are pursuing legitimate objectives which are listed in the TILMA text; and finally, commit to work toward the enhancement of sustainable development, consumer environmental protection, and health, safety, and labour

standards and the effectiveness of measures relating thereto.

Finally, in the transportation sector in particular, the TILMA mandates immediate registration reciprocity for temporary inter- and intra-provincial vehicle operation, harmonizes commercial transport safety code standards for vehicles less than 12,000 kilograms, and requires future co-operation of measures relating to cargo securement and vehicle configurations, weights, and dimensions.

It is important to note that except for those standards and regulations explicitly identified in the TILMA text, of which there are very few, the reconciliation of all other existing regulations and standards that operate to restrict or impair trade, investment or labour mobility is deferred to the transitional negotiations between April 1 of this year and April 1, 2009. During the transitional period, the parties are asked to negotiate any special or transitional provisions or exclusions relating to the extent of coverage of all such regulations and standards.

The default mechanism in our sense at this stage is undefined. One argument is that it could be that mutual recognition is the end result. Another is that governments recognize that there are a number of issues that still require a determination of the extent of coverage, and they could agree to, for example, to extend the transitional negotiation time period.

To conclude my comments in this area, the committee should know that, at the national AIT table, internal trade ministers have decided that existing intergovernmental forums of ministers responsible for each of those sectors identified in the AIT should continue their best efforts at regulatory reconciliation. It also means that at least with respect to regulatory measures and regimes, the dispute resolution procedures and mechanisms will continue not to apply.

Finally recognizing that a trade agreement — whether it's the AIT, TILMA or otherwise — might not be the most appropriate instrument for pursuing regulatory reform, internal trade ministers recently resolved to export this set of issues into a parallel Canada-wide forum that's dealing specifically with smart regulation, and to ask first ministers to elevate the political profile and accountability of that forum by appointing ministers responsible to ask that forum to focus its future work on priority areas such as, in the first instance, transportation.

The second trade-related area is government procurement. The procurement chapter in the AIT intentionally excludes some areas from coverage. And based on the degree to which governments can influence their purchasing decisions, it offers differential treatment, including dispute settlement, to the following types of entities: provincial executive government entities; provincial commercial industrial Crowns; other arms-length provincial, commercial, industrial entities; and the so-called MASH [municipalities, academic institutions, schools, hospitals] sector which I think as you know includes municipalities, academic, and educational institutions and social and health services entities.

Internal trade ministers have also had some good success in incrementally broadening and deepening the coverage of this chapter in the AIT, for example to the MASH sector in 1999 and to the commercial and industrial Crowns in 2005. In

contrast the TILMA immediately deepens the coverage of its procurement rules by lowering, relative to the AIT, the monetary thresholds above which open tenders for goods and services, but not construction, are required and by reducing the AIT's differing monetary thresholds by category of government entity to one common provision applicable to all.

The TILMA also immediately broadens coverage beyond the AIT by eliminating certain of the latter's current exemptions and following the two-year transitional negotiations period by possibly including other professional services such as architects and engineers and sectors such as financial institutions, services and entities, and other entities such as provincial Crown corporations and MASH sector entities in some fashion that may be more liberal than the AIT's current provisions.

Finally I would add that the TILMA suspends, perhaps only temporarily, the ability of governments and persons to receive monetary awards from dispute panels against non-compliant government entities until such a time as a new bid protest mechanism is negotiated and agreed. If such awards are eventually allowed, this would be a significant departure from the current AIT rules which only allow, in the case of provincial and sub-provincial government entities, for retaliation as a last resort.

The third trade-related area is that of agri-food goods. The current purview of the AIT in this area is technical barriers to trade, which you've heard previously from Ms. Macmillan and others, including those that have policy implications. Those provinces in which supply-managed agriculture — i.e., dairy, poultry, and eggs — is predominant believe however that trade issues that relate to those sectors are really policy issues with trade implications that should remain outside the AIT's scope.

These semantic obstacles to consensus led in 2006 to a so-called AIT consistent trade enhancement agreement on a sector-specific basis, which you've heard from earlier. In that agreement the six consenting provinces and territories, which include Alberta, BC, and Saskatchewan, agreed to move forward on reducing or eliminating the remaining technical barriers between them in the agri-food sector but not including supply-managed agriculture as such.

I would point out to the committee that this kind of sector-specific plural lateral agreement — so called because it involves some rather than all government parties — is interesting because it preserves the national framework of the AIT while permitting flexibility of coverage to various like-minded provinces and regions. The TILMA is also not one of these, but it is comprehensive rather than sector specific in scope.

Finally in the national AIT context, agriculture ministers have also agreed to make further progress in their sectors by tabling a new work plan with the premiers' Council of Federation for review and approval in August this summer.

In comparison the TILMA generally treats agri-foods the same as all other goods covered by its general and specific rules, and its dispute resolution mechanism. However both Alberta and BC have registered explicit exemptions for the supply-managed sectors.

Further under the business subsidy sections of the TILMA's transitional measures sections, it lists measures related to financial support and assistance to the agriculture and the agri-food sectors as requiring further negotiation over the next two years with respect to the terms and conditions of coverage by that agreement. And that, I might add, would include federal-provincial agriculture programs as well. In the meantime, that section of the TILMA requires parties to agree to a standstill on those specific issues, meaning that none is permitted to amend existing measures or adopt new ones that are less consistent with the TILMA than they are today.

The fourth trade-related issue is that of energy. Regarding internal trade in energy goods and services, if you turn to chapter 12 of the AIT you will notice it remains blank after more than a decade of agreement operation. The main reason for the lengthy delay in adding an agriculture . . . or energy chapter to the AIT — excuse me — has been the inability of federal and provincial energy and internal trade ministers to reach consensus on how to deal with the discriminatory local development provisions in the two Atlantic energy accords between the federal government, Nova Scotia, and Newfoundland and Labrador.

Until very recently the signatories of these accords had one of their local development provisions permanently exempted from the AIT, while all other provinces and territories including Saskatchewan have insisted that they be transitional so that at some point the AIT's non-discrimination provisions would apply to everyone on an equal basis.

It's possible that this impasse could be coming to an end. That's because in February of this year federal-provincial internal trade ministers came to agreement on a new energy text that, subject to approval by energy ministers later this year, could be incorporated into the AIT sometime this year.

I think's important to note here however that in reaching this particular agreement, the internal trade ministers agreed to a novel opting out mechanism that will allow the energy chapter to be incorporated into the AIT on a consensus-minus-one basis. While this tactic won't deliver full Canada-wide coverage as most had hoped, it does add flexibility to the AIT's decision making that may be useful on other equally difficult issues in the future.

In the TILMA on the other hand, its general institutions, rules, and procedures are intended to cover all energy goods and services except again for those that are explicitly excluded. Amongst the current exclusions are non-discriminatory measures relating to the disposition of rights to energy and mineral resources, exploration and development of energy and mineral resources, management or conservation of energy and mineral resources, the promotion of renewable and alternative energy, certain statutory or contractual power purchase and/or access arrangements — that was for Alberta and BC — and BC has exempted certain hydroelectric infrastructure.

In addition, the TILMA specific energy provisions include a commitment to reconcile their standards for electricity measures so that they meet both those that generally prevail in North America and those in the western interconnection region, which does not, by the way, include Saskatchewan. Finally, both

regulated rates established for the public good or public interest. And water and services and investments pertaining to water are entirely exempted from TILMA's coverage.

To conclude this section, national energy ministers have now been asked to finalize the text of the new AIT energy chapter in the coming months, and they've been encouraged to determine whether it's appropriate for TILMA-like provisions to be adopted into the national context.

The fifth trade-related issue is that of securities regulation. In the national AIT context securities regulation, like all financial institutions and services, has been excluded from coverage from the outset. While the terms and conditions of possible coverage by the AIT are among the issues that remain on the internal trade ministers' agenda for future consideration, the reality is that these issues are being addressed by federal-provincial finance rather than internal trade ministers and will likely continue to do so. Similarly the TILMA lists financial institutions and services, including securities regulation, in the Alberta-BC context in its transitional measures section. As in the AIT, whether and how financial institutions and services in the TILMA will be covered in its rules are issues that remain to be negotiated by signatories, again over the next two years.

Moving to the issue of investment, the AIT's provisions in this measure, in this area, are characterized by certain built-in gaps and exemptions that are intended to qualify the absolute freedom of movement of capital across the country. These provisions have been periodically reviewed by internal trade ministers, and to date there has been no collective inclination to alter them significantly.

At this point, the only active investment issue in the national AIT agenda is that of business subsidies. And in that area, ministers recently agreed to minor adjustments to the existing code of conduct on incentives in the AIT to emphasize that governments must give serious consideration to the effects of such incentives on industries and economies of other provinces. Otherwise that code recognizes that, subject to certain quite permissive conditions, governments ought to be able to provide financial incentives to business for local economic development purposes. As such it also exempts those incentives from either government or private challenge.

These provisions recognize that such incentives can be useful in levelling the economic playing field between provinces in Canada and/or between provinces and their neighbouring US states. This is especially the case where non-comparable fiscal capacities significantly affect the ability of governments to assist local businesses in other ways such as through lower tax rates, more and better infrastructure, assisted R&D, and the like.

In contrast the TILMA deals with the gaps and exemptions in the AIT's investment chapter by, in the first and most general instance, applying the agreement as a whole again except for a number of explicitly listed exclusions to all measures of provincial government entities that relate to investment. The TILMA's special provisions also prohibit direct or indirect business subsidies that — amongst other things, also prohibited by the AIT — could otherwise distort investment decisions. This latter constraint is not present in the AIT. There are also several specific exceptions to the TILMA's general prohibition

of business subsidies including those that are generally available, i.e., to all parts of the economy or to all sub sectors of a sector of the economy including those that are generally available and/or that are for regional economic development purposes that do not include favouring specific companies or sectors.

Finally in the transition period again — so April 1, 2007, to April 1, 2009 — there will be further negotiations to determine whether and to what extent the TILMA's investment rules will apply to Crown corporations, the MASH entities that I referred to earlier, financial institutions and services, business registration and reporting requirements, financial support to the agri-foods sector, and a few laws in Alberta and BC that maintain investor residency requirements.

As regards labour mobility, the committee should know that the AIT and the TILMA are now on track to produce the same outcomes by the same dates. In September 2006, all of Canada's internal trade ministers including the federal minister agreed that by April 1, 2009, when the TILMA is also ready to take full effect, all remaining barriers to labour mobility and regulated occupations in Canada will be eliminated.

The federal-provincial Forum of Labour Market Ministers, the FLMM, reports that over — I'm sorry — report that all 52 self-regulated professions in Canada are expected to have successfully concluded their work to achieve compliance with the AIT's labour mobility chapter by the 2009 deadline. Furthermore they state that their forum is also working with the Canadian Council of Directors of Apprenticeship, the CCDA, which oversees recognition of trades qualifications to meet the same deadline for skilled trades as well.

Finally with respect to the important issue of foreign credential recognition, the forum's current work with the regulated professions includes the issue of recognition of internationally trained workers without further assessment once they have been licensed in any Canadian jurisdiction. That work complements the ongoing efforts of several national and provincial initiatives to address the initial recognition of internationally trained workers.

In comparison, while the TILMA's provisions in this area are intended to achieve the same objectives as those of the national forum, they will do so immediately for the regulated professionals which otherwise, or sorry, not otherwise listed in the transitional measures section, of which there are about 60 of these professions, and for those in the skilled trades that are part of the national Red Seal program.

Further negotiations over the next two years are to bring those occupations listed in the TILMA as transitional under coverage in some fashion, i.e., through special or transitional provisions or exclusions. In addition both the AIT and the TILMA allow for existing or future inconsistent occupation-related measures to continue under certain limited conditions including those related to the pursuit of legitimate objectives, again, that are defined in the agreement. Finally, like the AIT, these labour mobility provisions are also subject to the TILMA's dispute settlement provisions.

The last issue I'd like to touch on is the issue of dispute

resolution. In this area, nationally, internal trade ministers have succeeded in substantially simplifying and streamlining the AIT's dispute resolution mechanisms and procedures over the past two years. The sole outstanding issue in this area is how best to make it effective in bringing about appropriate changes in the behaviour of non-compliant governments that can and unfortunately do on occasion — as I think we've heard particularly in the margarine case — ignore dispute panel rulings against them.

Led by Saskatchewan, national internal trade ministers have now developed a number of options for reform in this area the premiers will be discussing at their next Council of the Federation meeting in August of this year.

In comparison, the TILMA provides for the binding assessment by dispute panels of monetary awards of up to \$5 million per case against non-compliant governments. The TILMA also accelerates, relative to the AIT, the time frame within which disputes are to be decided. Further the TILMA provides more direct access to persons — both individual and corporate — to the dispute settlement mechanism for all matters covered in the agreement by eliminating the AIT's intermediate screener step in the process. The TILMA's dispute resolution provisions will also not fully apply to government procurement, nor to the agreement's transitional measures, at least until further notice.

Finally we think that the TILMA rules permit serial but not parallel challenges to and awards against allegedly inconsistent government measures should a signatory government decide not to bring its offending measures into compliance with TILMA rules.

We think it's possible that, under the TILMA, government measures may be challenged more often, given that the enforcement of panel rulings is likely to be more effective than under the current AIT. That said, we think that frivolous or vexatious challenges will continue to be discouraged under TILMA because, like the AIT, panels would have discretion in awarding dispute settlement costs.

So that's a brief encapsulation of sort of the comparison between the AIT and TILMA provisions in several key areas. And I'll turn the floor back to the committee for further discussion. Thank you.

The Chair: — Okay. So far on the speaking list, I have Ms. Crofford.

Ms. Crofford: — Yes. Just three questions here. Under the trade areas, you talked about there being some mandatory reconciliation of standards and immediate reciprocity. Again, would that be the dispute resolution body that decides what standards have precedence? Is it a negotiated process? What is it?

Mr. Donald: — That's a negotiating process between the parties in the AIT, that they have been directed to try to come to some kind of understanding in the regulations and standards areas. The difficulty in the AIT context is that they never set a sort of a line in the sand, i.e., some deadline by which this mandatory . . .

Ms. Crofford: — And who actually directs them to do it? Is there some body that TILMA, agency or who directs them to do it?

Mr. Donald: — We're talking TILMA here or the AIT?

Ms. Crofford: — Well I thought it was under . . . When you were comparing AIT and TILMA, it was under TILMA where there would be mandatory reconciliation of standards. So someone has to say, you have to reconcile this or we're going to do it or I don't know . . .

Mr. Donald: — And in fact, when it comes to regulations and standards in the TILMA, virtually all of them are subject to this transitional negotiation, meaning at this stage it's sort of in the officials of Alberta and BC to sit down with, you know, each other and the other sort of experts in the regulatory fields in their governments to see, first of all, where the differences are and to attempt to negotiate either mutual recognition or otherwise come to some kind of reconciliation of the differences in those matters.

Ms. Crofford: — Now this might be a question to the minister. Does that mean that when the ministers, I guess, sort of assigned Alberta and BC to do this work, they were expecting them to perhaps be the first ones at the negotiating table to see if they could reach some resolution before the rest of the provinces were to move in that direction, or was that not the model?

Hon. Mr. Van Mulligen: — No. My sense is, and I wasn't there at that time, but it was more a question of are there alternatives to the approach that we have taken under the Agreement on Internal Trade that might be looked at by the jurisdictions. They were asked to look at a couple of approaches and had settled on one approach, TILMA, and in fact went further to that and say we're under the provisions of AIT; we are signing on to this particular agreement and in by . . .

Ms. Crofford: — Yes, so by going beyond a model to an actual agreement.

Hon. Mr. Van Mulligen: — Yes.

Ms. Crofford: — Yes. Okay the next question — if I find my question marks — in the case of the energy discussion, if there is both an AIT provision and a TILMA provision, which one would take precedence?

Mr. Donald: — As with any issue under the TILMA for example that only takes . . . the TILMA rules apply only to Alberta and BC. So if there's an Alberta and BC issue that falls under their particular energy rules of the TILMA, the TILMA would apply. In any situation where there was for example a measure — a Saskatchewan measure versus an Alberta measure in the energy area, and if we actually arrive at an energy chapter in the AIT context — the provisions of the AIT would apply.

Ms. Crofford: — So that's saying we have a Canadian standard unless somebody decides to do something else.

Mr. Donald: — I think the way to look at it is that if we end up with an energy chapter across Canada which could very well

happen later this year, Alberta and BC will also be signatory to that for example. But in the TILMA context, they have in a couple areas have taken some sort of extra steps with respect to the BC-Alberta environment. In those particular areas and then in anything involving energy just between them, the TILMA provisions would apply.

The other issue that you have to keep in mind, if there is in fact a provision for example an AIT energy chapter that would deem to be more liberal than what's in the TILMA, then in that situation the AIT provision could apply. So they have sort of written that particular sort of rule into the TILMA as well.

Ms. Crofford: — So is it the notion of there's a basic rule, but there can be an enhanced rule but not a lower rule or that kind of notion?

Mr. Donald: — I think generally that's the way to look at it. Yes.

Ms. Crofford: — Okay. The one about . . . Right now there's big competition for some types of employees across Canada: medical employees, doctors, whatever. Would incentives to recruit employees be considered a barrier to labour mobility because some province is spending a whole more money to attract them than another province?

Mr. Donald: — I don't think so at this stage. I mean, I think all issues related to . . . Sometimes I have to refer to the actual text here; I apologize. I would say I'd have to give this a whole lot further thought. But I don't see that as being a particular issue at this stage. Now I guess it would also have to depend on how you structure that. But certainly there has been, you know, competition for, in terms of — the nursing sector comes to mind now — where different jurisdictions are offering certain packages to individuals. I think our preliminary read of the TILMA would be that those sorts of, kinds of incentives to individuals would not come under TILMA rules.

Ms. Crofford: — Okay. We'll just leave that there for now. So we got one kind of view of the world for the corporate behaviour and another view of the world for the labour behaviour.

Mr. Donald: — Yes.

Ms. Crofford: — Okay. That's it, thanks.

The Chair: — Okay. And I have Mr. Weekes, Iwanchuk, and Mr. Cheveldayoff. So Mr. Weekes.

Mr. Weekes: — Thank you, Madam Chair. Mr. Osborne, I believe in your presentation you basically summed up, from the statistical evidence, there was a best case scenario and a worst case scenario as far as growth and benefit to Saskatchewan. And you'd said it was based on, basically, old statistics or the most latest that you have. But could you give an estimate of . . . since the last numbers that your presentation was based on, would the economy or would the numbers improve? Or because the economy has grown in recent years, that'd be fair to say that the best case scenario, your assessment, would be close to the best case scenario than the worst case scenario?

Mr. Osborne: — Well if I understand your question, what I did was to apply the estimates of the cost of trade barriers, which the other side of the coin is the benefits. Of course if you remove those costs, you get those benefits.

The best, the most rigorous assessment that's been done based on economic analysis, you come to a figure — I think as Ms. Macmillan identifies in her paper as well — of about 0.5 per cent of GDP. Okay. This was the estimate of the cost of national trade barriers essentially before the AIT came into effect. So based on that, since the AIT has reduced those barriers since then, the payoff nationally for reducing barriers is less, by definition. There are less barriers to be removed, so the payoff from removing them is less. So you move from, on the academic side, from 0.5 per cent of GDP to 0.2 — 0.02 essentially.

I mean, basically to answer your question — I realize it's complicated — but to answer your question, the payoffs are less because the barriers are less. So if it was \$10 per person in 1995, it's going to be less today because the barriers, some of those barriers have been removed.

Mr. Weekes: — Thank you. You also made the comment, if you could clarify it, I'm not sure what context you said it in, but that the labour market in the short term would be hurt.

Mr. Osborne: — Yes.

Mr. Weekes: — Could you explain that a bit more and why would that happen.

Mr. Osborne: — This was the Conference Board's conclusion. They felt that in the short term, there might be a negative impact of joining the TILMA for Saskatchewan simply because it's easier for companies in BC and Alberta to bring Saskatchewan folks on board than it is for them to fly them from Newfoundland. And therefore, they would be inclined to recruit out of Saskatchewan.

So in the short term, they felt that by the TILMA's provisions, there would be a slight incentive to draw more people and more people might go from Saskatchewan under the TILMA. But they qualified that by saying that, while that might be a short-term result, they felt that when the other pieces of the TILMA kicked in, which presumably grows a Saskatchewan economy, then there would be no net drain on the province's labour market.

Mr. Weekes: — But why . . . I mean, our labour force has been moving to Alberta and British Columbia the last few years fairly dramatically, and now we're seeing some reverse to that. So why would TILMA, I mean, affect that one way or the other?

Mr. Osborne: — Well as I say, I think if I read the Conference Board's conclusions properly, they felt that the recruiting might be more intense post-TILMA because it's cheaper for businesses in Alberta and BC to import Saskatchewan labour than it is to get them from farther afield. So you know, because there are costs, it's not a regulatory issue. There are just costs incurred by businesses in those provinces for bringing labour into their provinces. Those costs would be less because we're

closer.

Mr. Weekes: — Also I think Mr. Donald made reference to AIT and TILMA having the same 2009 deadline for a number of things I believe, but I believe specifically you were talking about labour mobility.

Mr. Donald: — That's correct.

Mr. Weekes: — Okay. So I'm assuming . . . I believe you said that all the provinces and territories and federal government have already signed on to this, but it's an implementation process that you're referring to that has to be concluded by 2009.

Mr. Donald: — That's correct. There are a number of regulated occupations that still have not sort of met the mutual recognition or reconciliation of standards across the country. So there is a forum of labour market ministers and senior officials level below that that are working in addressing the remaining outstanding issues for the regulated professions. There's only a very few left. There's over, I believe, you know, 50 or 60 that . . . where about nine-tenths of them have been addressed and there's only about 10 per cent of these professions that remain to be reconciled across the country. And so they've put that line in the sand as a deadline — the council, the federation has for ministers responsible — to crunch the final set of occupations and to have free mobility of labour in all those professions by April 1, '09.

Mr. Weekes: — Now my next point is getting back what Mr. Osborne and I just talked about as the possible negative effect on the workforce and then on the other hand what you said about the labour mobility deadline. Those two things . . . How do you square those two things? Is one a possible negative effect? But if the whole country is already signed on to the labour mobility, is any negative effects gone from an agreement with TILMA?

Mr. Osborne: — I think the logic of this is that there's going to be the same kind of effect come out of the national agreement as there would be with the TILMA, the reason being that if the occupational standard, certification and licensing, are effectively reconciled whether through the TILMA or the national agreement, those who are close to the magnet which is Alberta and BC — and increasingly Saskatchewan too, we're drawing in labour as well — people will move as they do today. So it seems to me that if the AIT and the TILMA have the same outcomes at the same date, you're likely to see similar effects in the short term.

Mr. Weekes: — Okay just one more point. You mentioned that . . . Well it says in your information less than half of the exports or trade is between BC and Alberta and Saskatchewan, so more than half is to the east of us. My concern or I guess the impression I got from you by saying that on page 4 . . . Less than half of Saskatchewan internal trade, I guess, currently accounts from Alberta and BC. I got the impression that you're leaving the impression that TILMA would have a negative effect on us because we don't have the majority of our trade with British Columbia and Alberta. Would that be fair to say? Is that what you meant to say?

Mr. Osborne: — Not at all. What I meant to say is that, you know, the AIT's rules apply to everybody in Canada, as it stands today. The TILMA applies to two. So they are two different sets of rules. So because we trade more with Manitoba, Ontario, and Quebec, we need to be concerned in Saskatchewan about the terms and conditions of market access to those provinces as much or more than we do to Alberta and BC. You know, I mean that's the reality of our trade pattern.

So that's what I meant to infer. It's not a downside. It's just meant to point out to the committee that we need to look at Saskatchewan's interests such as our trade pattern advises, which is we need to be concerned with the national terms of market access.

Mr. Weekes: — Thank you for that clarification. I guess I was just asking your opinion, but I've heard it mentioned by some economists on TV that other jurisdictions, other provinces in Canada, may be or are looking at the TILMA agreement as something that — how should we put it? — they better look at getting on board sooner than later. I'm not talking about when I say Saskatchewan, but the rest of Canada. And of course the AIT, I guess, is the process the other provinces are taking.

But is that your opinion, that that could be until . . . You choose Ontario as an example, may be looking at the TILMA agreement as something to be feared because they're left out of it rather than . . . and should be working hard to have similar agreement.

Mr. Osborne: — I'm not sure. I'm not sure I can answer that. I don't know what their intent is. We have heard that they were looking into the TILMA just as we have been and just as every other province says they're doing, but that's the extent of it today.

Mr. Weekes: — Yes. Do you have any knowledge about any other parts of Canada doing their own bilateral agreement on . . . I mean the Maritimes would be an obvious place that could be doing something like that. Or is there any movement afoot to have an agreement out there among themselves?

Mr. Osborne: — The only thing that I'm aware of was, I think, Premier Charest after the Quebec election suggested to Ontario that they enter into some kind of bilateral internal trade agreement. We don't know what that means, and I guess in the next couple of days when the ministers' meeting occurs, we'll find out. It's not clear to us that it's TILMA. In fact I think as Ms. Macmillan pointed out, there are certain sensitivities that those provinces have about certain features of TILMA which suggests to us that they . . . If they do go that route, it won't be a carbon copy of TILMA. You know.

But one of our concerns as the minister suggested is that the more of these bilateral agreements that pop up, the more fragmented the Canadian market becomes and the more costly it is for businesses to figure out how to comply with all of these different rules depending on where you trade or invest or work. So we have a concern with that sort of proliferation of bilateral or regional agreements.

Mr. Weekes: — But also on the other hand, TILMA and well the AIT process has been going on for a number of years. It

obviously is a movement among all provinces and jurisdictions to move to trade agreements. Depending on what can be agreed upon is another question, but everyone's moving in the same direction. It's just a matter of if it's fast enough or depending on the rules.

And TILMA seems to be something that, from what I hear, my impression is, you know, basically saying to the rest of Canada, well you guys can continue to argue; we're going to do it and we're moving ahead. And I guess from my previous comments, the rest of Canada, it's up to you to catch up to us sort of thing. That's generally my impression I guess. I just asked you your opinion on that.

Mr. Osborne: — Well I just have a . . . just to recall from Bob's presentation, there have been a number of innovations inside the AIT including the agricultural, sectoral agricultural agreement by a number of provinces — six provinces. The prospective energy chapter will be likely, you know, all but one province. So there are ways to move forward in the AIT context if parties are willing to go there.

Mr. Weekes: — Thank you.

The Chair: — Mr. Iwanchuk.

Mr. Iwanchuk: — Yes. Just following up upon what Mr. Weekes had raised just for clarification. I know we talked about the professions under the AIT, but I think you had mentioned skilled trades as well in there, that they . . . Were you sort of, when you answered that, were you including everyone together in that or? Because I thought I'd heard you talk about professions and skilled trades, but the answer was only simply on the professions now.

Mr. Donald: — Yes exactly. The labour mobility chapter does cover sort of all regulated professions which includes skilled trades.

Mr. Iwanchuk: — Oh so it's under the . . . What sort of professions would . . . or skilled trades . . . they'd still be outstanding in . . .

Mr. Donald: — I'm not sort of an expert in the area. But any trade where there is, you know, a government that it has some kind of, you know, rule or regulation around qualifications or, you know, standards for getting that employment like carpenters' papers, those sorts of areas — so any profession that has or . . . sorry. Any skilled trade that has, you know, criteria surrounding either education or skill development requirements would be covered off.

Ms. Stonehouse: — We could provide a list.

Mr. Iwanchuk: — Okay. That's more what I was . . . Okay. Thank you. My question was around, we've heard the discussions around the dispute resolution and the mandatory time limits and penalties and the rest of that.

Now was there anywhere else in other trade agreements that have this kind of model in terms of dispute resolution that you've looked at or know of, and how it works?

Ms. Zarzeczny: — It's actually a fairly common thing to see in trade agreements. The North American Free Trade Agreement has dispute resolution models. And there's one for actions that are brought by private parties against the NAFTA parties — the United States, Mexico and Canada — and there's another for the government to government dispute resolution provisions.

NAFTA has one. The World Trade Organization agreements have dispute resolution models. And a lot of the sort of bilateral trade agreements between countries will have a dispute resolution model. So it's by no means unusual. It's more usual to have a model than not.

Mr. Iwanchuk: — No, I think my question was in terms of the penalties and the specifics of that because my second question I wanted to know was the AIT is that you're, saying, adopting or looking at adopting — or I thought I heard that — adopting some of this.

So my model question — yes, I understand what you were saying. But the specifics where there are the penalties and the strict timelines because of course that's what's said, this is what's so or what people think is a good thing about this model. So that's really what . . .

Ms. Zarzeczny: — You're correct in that the TILMA provides for, and it's a maximum \$5 million penalty for failure to comply with the panel's recommendation. There's a period of time . . . Parties will take their disputes to the panel. The panel will rule in a certain way. And then there's a period of time within which the governments are entitled to work to bring their measures in compliance with the panel's ruling. Failing that, there is a penalty of up to \$5 million.

NAFTA has got a similar provision. It's in the investment chapter. And there's no cap on the amount that can be awarded under NAFTA. But a NAFTA panel can make an award against a NAFTA government, and as I say there is no ceiling. It's more compensation for injury that's been suffered. So you'll see that in the NAFTA.

In the WTO there is an ability to agree on a compensation amount. Failing agreement, the party in whose favour the award is made can take retaliatory action. And that works better in an international context because you can do things like impose tariffs and duties and that type of thing which we can't do internally. There are constitutional impediments to imposing a duty. So for example we can't say to Alberta, in retaliation for you or not complying with the panel's recommendation we are going to put a duty or a tariff on some of the goods that we import from you. We are constitutionally prevented from doing that.

So there are various sanctions. NAFTA's got a monetary one. WTO has a voluntary monetary one, failing which you can do the retaliation.

Mr. Iwanchuk: — I guess the other follow-up point would that be . . . I mean if you institute and say . . . I mean I'm not quite grasping I guess why people are adopting that sort of model. I mean you have, you know, agreements. Or do you get into tariffs and you know retaliatory kind of things that happen when you impose strict, strict time limits, when you impose

penalties?

I mean this could on the other hand lead to things because I take it that the TILMA, in terms of the AIT some of the negotiations have been ongoing, and we haven't been getting resolutions or whatever. I guess I'm not convinced that just because you impose time limits and penalties that this will get you to where they want to go. And I'm wondering what some of the arguments around that could be that possibly . . . or whether that might, you know, deal with further, in escalation in fact of, you know, inability to reach agreements. So I . . .

Ms. Zarzeczny: — I'm not, I can't comment on the escalation. I mean TILMA proponents will tell you that one of the reasons that TILMA is going to work better is because there is the monetary penalty. If you look at the AIT, there's been eight disputes that have made their way through the panel process, and only two have resulted in compliance by the governments with the panel's recommendations. So AIT critics will tell you, you know, that that's one of the failings of the AIT that there isn't an enforcement mechanism and that parties can, with impunity, ignore a panel's rulings.

But you're right. My opinion would be that you're right in that a monetary penalty doesn't guarantee enforcement. It doesn't guarantee that you're going to get compliance with the panel rulings. You could say it's a powerful incentive, and you know the degree of incentive probably, you know, depends on the amount of the penalty and how painful it is to the party to ignore the panel ruling.

Mr. Iwanchuk: — Okay thank you.

The Chair: — Mr. Cheveldayoff.

Mr. Cheveldayoff: — Did you have a question on this point?

Hon. Mr. Yates: — Yes on this one . . .

The Chair: — On this one point? Okay . . .

Mr. Cheveldayoff: — Yes, go ahead.

Hon. Mr. Yates: — What's to assure that any government will pay the \$5 million? Just as they've ignored current penalties, what's to ensure that government in the future just will — if they don't feel it's justified just not pay?

Ms. Zarzeczny: — Two points in response to that. The current AIT really doesn't contain a penalty. I mean it's got a couple of . . . One thing is a publication of the award. Well that doesn't really seem to bother anybody. And the second thing is retaliation. But for the reasons I just explained, usually it's cutting off your nose to spite your face, or there are constitutional limitations to what you can do. So there isn't much in the way of a penalty right now in the AIT.

The monetary award, the way that TILMA has got it set up and the way parties are saying it could be set up in Saskatchewan and other jurisdictions is you get a \$5 million award. You're entitled to register that award with the courts, for example the Court of Queen's Bench. And once it's registered, you get a certificate from the registrar of the court. You take that

certificate to the Minister of Finance, and he or she pays out of the General Revenue Fund. So it's an automatic process that, I mean, you get a piece of paper, and the minister, by legislation, is obligated to pay in accordance with the piece of paper.

So I mean theoretically the minister, I guess, could say I'm not paying. It's not something though in my experience Finance ministers have ever done.

Hon. Mr. Yates: — Thank you. Have we had experiences though where jurisdictions have been found at fault internationally and simply refuse to pay? It sounds real good but when it comes right down to it . . .

Ms. Zarzeczny: — At the end of the day I think it's . . . maybe difficult is too soft a . . . I mean it's difficult to impossible to make a sovereign entity do something like that. I mean, you do what you can if you want to make an agreement enforceable.

In that sense it's not unlike any other contract. You know, you get two parties. They each promise to do certain things. They get rights and obligations as a result, and if they're hell-bent on breaching it, it's going to happen. And if they want to comply with the obligations, then that will happen too.

Hon. Mr. Yates: — Thank you.

The Chair: — Mr. Cheveldayoff.

Mr. Cheveldayoff: — Thank you, Madam Chair, and thank you to the officials today for this discussion — very interesting. The reading that I've done — and I haven't done all that I would like to do on it — I found Eric Howe's, Professor Eric Howe's paper quite interesting and specifically the point that he talks about the status quo being irrelevant, that the world is going to change for Saskatchewan regardless of what we decide to do here because 43 per cent of our exports and 47.6 per cent of our imports are going to be with a body to the west of us that is changing. And I think that's an important thing that we have to consider as this committee entertains the discussions and the presentations — that the world will not be the same.

And that point, you know, hit home with me. And I guess I would like to know if that is a position that you agree with, that the Government of Saskatchewan sees the world being a different place post-TILMA.

Hon. Mr. Van Mulligen: — Well if I could just deal with that, and it's a variation on a question that Mr. Weekes raised about the question of Canada somehow being left behind because Alberta, BC decide to consummate an agreement about how to regulate significant issues of trade, investment, and labour mobility.

I think the significant challenge for Canada in terms of investment is the question of securities. And this is not something that's going to be solved by TILMA in any way, shape, or form. It's not something that's part of the AIT either. It comes under a different umbrella and has to do with ministers responsible for securities. And I think the approach at this point in Canada can be said to be lacking — where you have Ontario offside with an approach proposed by the other provinces, an approach that Alberta too was, I think, reluctant but now has

also agreed that it's probably the best approach. And I think there's a real question here of where do we go on the question of securities? You know, what are the rules for investment in any of 10 jurisdictions in Canada, and is there a more proactive role that the federal government might now be called upon to become involved in, provide some leadership on?

So I think that no matter what happens in terms of our internal trade issues, the significant question of investment from outside of Canada, how it is that entities perceive us, securities is still going to be the major issue.

I think too no matter what happens with respect to an agreement between Alberta and BC, there are significant regulatory challenges that face us as all Canadians that we need to come to grips with. I think transportation is probably the significant one, that no matter what you then, you know, manufacture for export in Alberta or BC, done according to rules that benefit both jurisdictions, the fact is that the trucks leaving those jurisdictions still run into the regulatory challenges that are posed by eight jurisdictions to the east of those two provinces, and whether or not we might be able to come to grips with that particular issue.

So I think there . . . you know, the question of, is the rest of Canada going to be somehow left behind? I think Canada, including Alberta-BC, will still be facing significant challenges in terms of improving the climate for investment in all of Canada, including Alberta-BC will be faced with regulatory hurdles on, you know, in various sectors that we need to come to grips with. And then the question is how best to do that.

And there's also the question in that context then if you have energy to expend on devising solutions, are you best then to do that on some regional basis or then to recognize at the end of the day that — look — this is something we need to deal with on the national basis. And so it's a question of where you put your energies.

Mr. Cheveldayoff: — Thank you to the minister for those comments, and it reminds me of some of our estimates exchanges, but I've enjoyed those very much as well.

I guess I agree with the minister; securities is something that's very important. I've talked to senior banking officials and senior financial officials. And you know, their point is that sometimes Saskatchewan does get left behind because when people look at doing something on a national basis, they usually do Ontario, BC, Alberta, and then they make the decision whether to go to the other provinces or not because of the hurdles that they see and the relative decision that they have to make whether the extra effort is worth the additional market.

I guess the way I see TILMA tilting the balance in Canada right now is that when Alberta and BC come together . . . and if it's an Alberta-BC-Saskatchewan model, I think that TILMA model would have influence on the rest of the country. It would have to be something that the rest of the country . . . because it would be the second largest economic power in the country, that that would have a way of helping with the national standardization. I don't see it as a balkanization if you like.

And my other concern I guess is, when I look at the numbers in

the international trading patterns — and I appreciate your comments about, you know, 43 per cent going west, but there's still the other percentage going east — I would suspect that Ontario is the number one trading partner with almost every province in the country, if not every province, just because of its size. So we see the 34 per cent of that being in Ontario which is going to happen.

But I also see if Ontario is looking at a TILMA Alberta-BC, that maybe some of that trade won't go to Saskatchewan. Maybe some of that trade will go to BC and Alberta, if there's one entity to deal with, if it's cost-efficient for them to do so. So I guess that's just a comment of mine that I would agree where Professor Howe is going with this, that there is some economic cost to doing nothing. And I guess something that always sticks with me is that if you're standing still, you're falling farther behind, especially in trade or economic decisions in this country. Any comments on that?

Hon. Mr. Van Mulligen: — I don't think that any jurisdiction is standing still, least of all Saskatchewan, given the number of changes that we have made over the course of the last number of years to improve the investment climate, the business climate, to improve the economy in Saskatchewan.

And you can look at the royalty structures, the impact that will have had both in terms of oil, natural gas — maybe not so much natural gas — but the mineral sector, the changes that we have put into place with respect to business taxation lately. But those are not the only ones that we have put into place over the years. Significantly manufacturing and processing input, the different tax regime for businesses involved in that has been usually significant and been part of . . . well I don't know, it might be not a causation factor but certainly there seems to be a close relationship between those changes in 1995-96 and then Saskatchewan outstripping the rest of the country in terms of growth in manufacturing output since that period of time.

So you know, it's not a question of us standing still. We will continue to and will continue to have a challenge within our own borders to ensure that we are competitive in many ways with other jurisdictions and are able to capitalize on the resources that we have. You know, there are though I think significant differences that we need to concern ourselves with, with respect to especially Alberta and their fiscal capacity over time and what that fiscal capacity has enabled them to do.

If we look at the question, the very narrow question, of business subsidies which has been targeted by TILMA to have little or no role in terms of how governments might respond to the need for economic development, that would be unlike the situation that we've had up till now where, with a fiscal capacity that outstrips every other jurisdiction in the country, Alberta has been able to, in my view, significantly influence the location of significant businesses and the development of significant businesses in that province.

Look at, for example, the shift in meat processing from Winnipeg to Edmonton. Look at the development of irrigation in southern Alberta at significant government subsidy and investment. Look at the development of some of the petrochemical industries in Medicine Hat and Red Deer significantly. Look at also the inducements that Alberta has put

into place in terms of oil sands development — and all of those inducements and subsidies over time having I think a positive impact on the Alberta economy.

But now Alberta is saying, you know, when you sign on to TILMA, other governments shouldn't do subsidies. Other governments should now take the point of view that taxes should be as low across the board for everyone, and that's really how governments should behave vis-à-vis business development.

Well then I would have some concerns about the impact of that on Saskatchewan because we can't hope to match their fiscal capacity, and therefore we have to become far more targeted in our approach in terms of establishing industries. You know attempts to, for example, encourage meat processing in Saskatchewan will likely be the result of our ability to have targeted inducements for certain industries. And to say well that now is no longer something that can or should be done under a TILMA approach . . . although AIT does provide, you know, greater flexibility in that regard. So we have those concerns about our abilities under a TILMA agreement vis-à-vis, you know, abilities under the AIT.

Now one can say well that's the kind of thing that can be negotiated, but we have to look at the framework that they've been able to negotiate among themselves. And they say there will be no changes to what's contained in that framework; then we have to be concerned about where is it we would go with that.

Mr. Cheveldayoff: — Thank you to the minister. Just one other quick question then.

The Chair: — We do have witnesses today. We have testimony that's provided on the technicalities and on the information provided to us rather than a dialogue between two members on whether or not there's a benefit at this point. So if that's the vein of your question, I'll accept that. I've had some patience till now as a new Chair.

Mr. Cheveldayoff: — I guess my question would be to define what the present position of the Government of Saskatchewan is, whether the officials would answer or the minister would answer that. That is the direction I was going.

The Chair: — This is the request of the minister to us to look at the information and to present the best body of information that we can as a committee. I don't think that this is our responsibility to find out what position at this point anyone's in. I think that's clear that's our job. I'll let the minister respond quickly, and then we'll move on.

Hon. Mr. Van Mulligen: — No if there're questions of policy, then I'd be pleased to deal with those, recognizing again that we've asked the committee to ascertain as best it can what the informed views are of Saskatchewan people with respect to internal trade generally, and to then in turn inform provincial government so that we can then take that into account before we make any decision in this matter. Roughly speaking, that's where we're at.

But if members have specific questions, you know, relative to

the presentations that have been made by officials, then I'd certainly encourage the committee to make use of this time to put those questions to the officials.

The Chair: — I have Mr. Yates on the speaking order.

Hon. Mr. Yates: — Thank you very much, Madam Chair. My question has to do with, would a series, in your opinion, a series of regional trade agreements in Canada outside of the AIT increase business costs or costs to business and complexity to businesses trying to operate through a various system of varied trade agreements? Say Ontario-Quebec, Alberta-British Columbia; is that likely to add costs to business and complexity to operating in Canada?

Mr. Osborne: — Well I think the short answer is yes because, you know, any business that wants to sell into BC and Alberta would have to be aware of the AIT's rules and the TILMA's rules. And presumably if on the other hand they wanted to sell into Ontario and Quebec, you would have to be aware of the rules of the Ontario and Quebec agreement. So you know, unless there's some great degree of convergence in those rules, it would be more costly and difficult to comply with.

Hon. Mr. Yates: — Okay. Thank you. My second question has to do with the perception, international perception, dealing with other countries. What's your opinion I guess or belief, how would we be viewed if we have a series of regional trade agreements? That, as well as the AIT, obviously will continue to exist. But in jurisdictions wanting to invest and bring capital to Canada, is that a barrier?

Mr. Osborne: — That's a very difficult question. My own view is that international investors, probably they look at Canada, you know, like the OECD or the IMF or the other, even the economist that wrote that article on TILMA, they tend to take a sort of 30,000-foot view of Canada as a country. And therefore I think that if there's a perception that (a) there's a whole pile of barriers that have been addressed or (b) they're being addressed in a number of ways which makes it even more unfathomable and difficult to decipher how to do business with whom, you end up in the same place in the point of view of international investors.

Hon. Mr. Yates: — Okay thank you. Would you believe that a single enhanced trade agreement for Canada, a pan-Canadian agreement, would be better than regional agreements?

Hon. Mr. Van Mulligen: — I think that a single agreement for all of Canada is far superior to have a clear identification of Canada as a single economy. A common market would be far superior to any group of regional entities because the message is much clearer for those outside of Canada who look to do business here that, you know, this is one economy of 32 million people as opposed to regional economies of 10 million there, 8 million here, 3 or 4 million there. So my sense is that yes, it's clearly superior. I think some of the testimony we heard today I think alludes to that too, in terms of perception in . . . [inaudible] . . . But again the question is what are the key ingredients of that perception and what is it that we really need to deal with to effectively deal with that.

Hon. Mr. Yates: — Thank you. My final question. Many of

you have been involved in — for many years — in the trade discussions between provinces and in Canada. Is TILMA likely to be accepted by the majority of Canadian provinces?

Hon. Mr. Van Mulligen: — My sense is that all jurisdictions are looking at TILMA. They've agreed to do that. But from what I've seen so far, would all provinces move to sign on to TILMA? My sense is that no, they would not. I think there are serious reservations that some jurisdictions would have with TILMA — Quebec notably in terms of agri-food and non-tariff barriers that they've erected in that area. Ditto Ontario has some issues with respect to non-tariff barriers when it comes to agri-food in terms of edible oils. And you know, my sense is that some of the Atlantic provinces too would have concerns when it comes to regional development issues with TILMA. But you know, that's just speculation at this point.

But I tell you if Quebec and Ontario are prepared to look at TILMA and to sign on to that, then that means an important aspect of some of the concerns that we have with AIT would certainly be addressed with respect to the ability of Saskatchewan canola producers to begin to export into those marketplaces unimpeded by non-tariff barriers such as no coloration for margarine and other things like that.

Hon. Mr. Yates: — Thank you very much. That was all my questions.

The Chair: — Mr. Weekes.

Mr. Weekes: — Thank you, Madam Chair. Just to follow up on what Mr. Yates and a couple of his points, his questions about having different trade blocks within Canada and that's an impediment to trade. My sense is that we have in the past had 10 or including the territories are really 12 different trading blocks. And let's assume we get down to three or four or two different trading blocks; that would be an improvement. And I think you had . . . I guess I asked you, do you agree that these internal trade agreements are really a work-in-progress? We have TILMA. We have AIT. And I think, at least my sense is, if we had a Canada-wide trade agreement, that would be a good thing. But AIT has been in the process for how many . . . over a decade now, and it's obvious that it needs to be pushed along or something needs to happen. And I think TILMA probably is a vehicle that is going to make AIT move quicker and move along and bring in more provinces into an internal trade agreement.

And the other point that was made is about our foreign competitors looking at Canada. Well the same logic I think would apply that they look at Canada with 12 different trade zones. They would look at Canada with two or three or four trade zones more favourable than 12. I just offer that and what is your opinion of that?

Mr. Osborne: — Well I'm not entirely sure I would agree with you that we have 12 trading blocks in Canada. I think that's not correct. What we're talking about here is interprovincial trade, not trade within provinces. So from that point of view, as it stands today there are two items on offer — the AIT or the TILMA — because they are interprovincial trade agreements. So I'm not certain that I would agree with your characterization.

But I guess my comments previously are not dissimilar from the kinds of discussions that are going on internationally because, as you're probably aware, you know, we have the international equivalent of the AIT, is the World Trade Organization. You know, it covers all members and all members' interests. What's happened internationally is kind of like what's going on in Canada, and that is that because it's been difficult and slow to move all the members of the World Trade Organization together to make changes, there's been a huge proliferation of regional agreements, some bilateral, some with a bunch of different countries. And according to those who study these things closely, you know, on the plus side they can make changes in a smaller group of folks that were not possible or not possible that quickly in the larger forum. So that's on the plus side of why you would go there.

On the downside, on the negative side you have two issues. One is this proliferation of trade rules, you know, so that it's more and more complicated, more and more costly to figure out how to trade with whom under what set of rules. So that's one of the negatives.

And the other negative is it leads to what's called trade diversion which is to say that oftentimes what happens when you have bilateral agreements like this is you end up trading with each other just because you're in the block not because you're the right people to trade with. In other words, you know, your being in a trade block with a certain set of rules induces trade but it doesn't mean that you're trading in the most efficient way with the most efficient traders.

So there are downsides to the proliferation of bilateral and plural lateral agreements. So it's the same internally as it is internationally. It's a common set of issues.

Mr. Weekes: — That's interesting. I mean the normal trade patterns are more north-south with Western Canada and to the US and same thing with Eastern Canada — north-south. So that's already taking place, and I think NAFTA and those agreements are already taking that into account.

But I think the rest of the world will look to Canada and kind of roll their eyes at the fact that we don't have internal trade agreements right now when we can have agreements between Canada, United States and Mexico that seem to be working quite well. That improved the economies of all three partners. But I'll leave it at that. Thank you.

The Chair: — Further questions of our presenters? Mr. Chisholm.

Mr. Chisholm: — Thank you. It seems to me that when Alberta and BC entered into this agreement and into the discussions, it's a reaction to something that was not working for them — that being the AIT. And I'm just wondering, what is Saskatchewan's position on AIT? Being 12 years in history, how that has served the province and the people of Saskatchewan, the AIT agreement?

Hon. Mr. Van Mulligen: — I think we've made significant progress since 1994 when the AIT was established. I think procurement is one area where we now have a common procurement practice for all the provinces and so on. It's been a

welcome thing to level the playing field for entities across the country. And I think that's been positive.

I think that some of the progress we're making on energy is promising, not as much progress as I would like to see on the regulatory front, but perhaps that's something that might be addressed, and I'll get to that.

I think it's interesting to note that the AIT arose from a concern by a new government, federal government, in 1993 that more needed to be done to improve the conditions for internal trade in Canada. And you know, I think the provinces, the first ministers responded to that. And as I had mentioned, some progress has been made, and it's welcome progress.

But if we're at an impasse, is there a role here for a new federal government to take a more active role in these questions and to do what they can to work with the first ministers to identify this as a major issue for Canada, to see what we can do to improve in terms of areas of securities regulations, regulations generally between the provinces?

As an example, one of the great regulatory challenges that has been identified is in the area of transportation. Is there then a role for a federal government to match its dollars for infrastructure investments with progress in terms of improvements in regulatory practices? Is that something, is there a role there for the federal government? Is there a role for the federal government in terms of labour mobility if there's issues that are still wanting for the federal government to provide leadership there? You know, those are questions I would have.

I think again, in short, have there been improvements in terms of internal trade? Yes there have been. Have things I think bogged down? I think there's a recognition that we have bogged down to some extent. Is that then reason to move away from looking for a national approach to the issues that we have or focusing on regional approaches? Again, my concern is that if you put your energies into regional approaches, you might not get at the end of the day what we should all be striving for, and that's some national solution to this.

So you know, I think there's a definite challenge here for the federal government to do more than simply conveying a concern but to take this and to make that perhaps the subject of first ministers' meetings as to how we might improve in this area for the benefit of all Canadians. And we have yet to see that, but — who knows? — maybe we'll all be pleasantly surprised by it at some point.

Mr. Chisholm: — Another, just a comment I think. When we heard about TILMA and it being touted by Alberta and BC, the BC government seemed quite pleased and proud to use the Conference Board of Canada's report that was done for them with the figures that were what the Conference Board of Canada came up with. It seems like since the report was released to the people of Saskatchewan after a similar report was prepared by the province of Saskatchewan, there's been an attempt to downplay the numbers that this same institution came up with on looking at the situation specifically for Saskatchewan. Would you like to comment on that, somebody?

Hon. Mr. Van Mulligen: — My deputy wants to get in to this, and I'm going to let her do this.

Ms. Stonehouse: — This may be a question more appropriately raised with our other guest today, Ms. Macmillan, who can give an assessment of what's happening on the national front in terms of that methodology. It's not really Saskatchewan-specific concerns here. Yes, please.

The Chair: — If you could. Ms. Macmillan.

Ms. Macmillan: — Madam Chair, I'll be happy to address that because this has been something that has been a topic of conversation in policy circles elsewhere, and I think it would be fair to say that the Conference Board's approach in studying the instance of the BC-Alberta situation has been . . . The methodology has not been greeted by the academic experts very favourably, that generally speaking it was quite criticized because basically — without getting too technical — the Conference Board approach of simply polling the business community and then sort of arbitrarily assigning a degree of hurt or a degree of benefit was not seen to be a credible methodology. So I think you would, you could go on any number of websites and see that that it has been fairly widely called into question.

I think without . . . you know I think the Government of Saskatchewan's approach, which is to commission the study but also to commission two independent experts to examine it in an impartial way, was the right way to deal with that and let people decide as they will whether they believe the way the Conference Board has gone about it or not.

The Chair: — Ms. Macmillan . . . [inaudible] . . . until we see if there are subsequent questions to that.

Mr. Chisholm: — No, that's it.

The Chair: — No? And any on this side? Well thank you very much for approaching that question with your response.

Well seeing no further questions of those people who are presenting today and/or who have given us information, I would mention to committee that we are starting tomorrow at 9 a.m. with the Canadian Union of Public Employees Local No. 7 and 21. They've been alerted that they're going to start their presentation at 9 a.m., so if we could be prompt. The afternoon, we have had one cancellation notice from the Saskatchewan Trucking Association. So we're making every effort to try and move up a later presenter to fill that and perhaps have an earlier adjournment time. But you would note that that's a change on tomorrow's agenda. Ms. Crofford.

Ms. Crofford: — Are they just changing, or does that mean they're not presenting to the committee?

Mr. Kaczowski: — They're not presenting at all.

Ms. Crofford: — I'm just reflecting on the minister's comment of the importance of transportation to this discussion. That seems an odd one to not present. But anyway if there's anything we can do to encourage them to come, I would urge us to do that.

The Chair: — We would send them that notice, that the rest of the week is fairly full. We would be then looking at some time — and we'll talk about that later in the week — but perhaps the Saskatoon presentation.

I would ask of the minister or any of the officials if there are closing comments; if there's something that Ms. Macmillan would like to add to her final comments? She's saying no. Mr. Minister.

Hon. Mr. Van Mulligen: — First of all I'd like to thank the committee members not only for their very perceptive and good questions today but also for agreeing to undertake this work on behalf of the people of Saskatchewan. I know there is other things that members would rather be doing at this time of year outside of this building in their own constituencies, so I thank them first of all for this dedication to the task at hand.

And again, as a government, we are very interested in receiving your report. Your identification by the people who present to you of the specific impediments to internal trade, the practical solutions that might be presented by those who appear before you in terms of what mechanism would best serve the solutions or the identification of solutions that they're looking for, and we look very much forward to your report to then informing the government as to our decision in this.

And finally I would like to thank Ms. Macmillan for being with us today. I found her presentation to be just superb in terms of the range of issues that she was able to identify and deal with. And also to thank my deputy and my officials and Ms. Zarzeczny from the Department of Justice for being here today, and thank you very much.

The Chair: — On behalf of the committee, we don't often get to see those officials who work for us on a daily basis in the area of trade agreements and trade law, and the deputy and others, we thank you for being here. And we have had the ability to look at Ms. Macmillan's presentation to the committee's hearings and really appreciated the chance for you to be with us today. And thank you for your time and effort to get here and wish you safe travels.

Being before the hour of 5 o'clock, I would need an adjournment motion. If a committee member would want to move that? I would entertain that motion from Mr. Yates. Further discussion? Seeing none, all those in favour? Opposed? Carried. This committee stands adjourned until tomorrow morning at 9 a.m.

[The committee adjourned at 16:52.]