

Bank of Canada's Poloz says lack of interprovincial trade is 'absurd'

By David Parkinson

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Bank of Canada Governor Stephen Poloz has criticized barriers that continue to hamper interprovincial trade, saying the lack of free trade among Canada's provinces is "absurd."

"That was the reason Confederation happened – to create a free-trade area," Mr. Poloz said during an armchair chat at an Ontario Securities Commission conference in Toronto on Thursday. "We spend all our energy renegotiating a free-trade agreement with the United States, but we can't possibly sit down and figure out how to have free trade within Canada?"

"You talk to companies, what does that cost them? It's absurd."

The issue of interprovincial trade looks likely to be re-opened by the recently re-elected Liberal government, which pledged in its election platform to push for further co-operation among the provinces to reduce internal trade impediments. This is yet another contentious issue for the minority Liberals to stickhandle with the provinces, amid heightened tensions over energy and climate policy. Prime Minister Justin Trudeau is taking steps to smooth relations with the provinces, including this week placing his top lieutenant, Chrystia Freeland, in charge of Intergovernmental Affairs.

The government wants to build on the 2017 Canadian Free Trade Agreement among the provinces and Ottawa, which established a framework for reducing province-to-province barriers across a wide swath of the economy. The deal fell far short of true free trade, with provinces granted a long list of exceptions. Significant province-to-province barriers still exist in areas such as transportation, alcohol, government procurement and investment.

A report earlier this year from the International Monetary Fund estimated that removing interprovincial trade barriers would add nearly 4 per cent to Canada's gross domestic product – "a much larger gain than expected from recently signed international trade agreements," the IMF said. The estimated economic gains amount to about \$80-billion annually, or more than \$2,000 per Canadian.

A spokesman for Finance Minister Bill Morneau said the Liberal government agrees removing barriers can create economic opportunities. "This is why we have worked to remove federal barriers to trade and investment within Canada," Pierre-Olivier Herbert said. "We hope that provinces and territories will continue this important work."

Mr. Poloz made his comments after addressing an audience question about whether he would prefer to see a single national-securities regulator rather than the system of provincial regulators that has long existed. Securities regulation is a provincial jurisdiction under the Constitution.

"There are so many fronts on which federal/provincial collaboration could be better," Mr. Poloz said.

"In an ideal world, I think we would appreciate the efficiency of having a single national regulator," he said.

"But I know we don't. We've grown up with a different system. I think our system works quite well. ... It could be a little more perfect. As long as we continue to progress toward that more flexible and transparent and easier – say, deburdened – system, then I'm going to be happy with that.

“But there’s this idea [of a national regulator] – it would be a good one, if we could pull it off.”

Turning to international trade worries, Mr. Poloz said that the fallout from the U.S.-China trade war will have cost the global economy more than \$1-trillion in lost output by the end of next year.

“That’s gone forever. Because you’ve thrown so much sand into the wheels of global commerce,” he said.

“Globalization has made the entire world richer,” he said. “When you reverse it – de-globalization – the reverse happens. Global trade has been shrinking over the past year, and companies have basically stopped investing until they know what the [trade] situation is going to be. This is universal – this is across maybe 30-40 countries. ...”

“We can see that it’s having an impact on [Canada] – exports are soft, investments are soft. But on the other hand, other things have been going pretty well – housing and the service sector,” he said.

“What we’re watching is to see, does [trade uncertainty] spill over now into confidence in the rest of the economy?” he said.

“So where we sit today is, we’re watching this. We think we’ve got monetary conditions about right, given the situation.”

The Bank of Canada has held its own key interest rate steady this year at 1.75 per cent, citing a stable rate of inflation around its 2-per-cent target and an economy that continues to run close to full capacity. This despite widespread rate cuts among central banks around the world, most notably the U.S. Federal Reserve, which has now reduced its key rate below that of Canada.

Mr. Poloz said those rate cuts around the world are starting to help alleviate the negative economic impact of the trade fears.

“Global financial conditions have eased quite a lot,” he said. “We’re starting to see glimmers of response.”