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ROADBLOCKS AHEAD

Internal barriers to trade
in Canada's truck
transportation sector



May 2024



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Contents

Executive summary <i>sommaire</i>	4
Introduction	7
Part 1: Internal barriers facing truck transportation	11
Part 2: Reducing barriers under the CFTA	21
Part 3: The potential economic gains from easing barriers in trucking....	29
Conclusion	31
About the authors	32
References	33
Endnotes.....	37

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Executive summary | *sommaire*

Canada's truck transportation sector faces significant economic and legal challenges due to internal trade barriers. These barriers, which include varying regulations across provinces, add approximately 8.3 percent to freight rates, thereby inflating business costs and reducing overall productivity in the economy. This report discusses the potential for a Mutual Recognition Agreement (MRA) under the Canadian Free Trade Agreement (CFTA) as a way to alleviate these obstacles, thereby enhancing economic integration and boosting Canada's productivity and real GDP.

Internal trade barriers in trucking not only increase the direct costs of shipping goods across provincial lines but also contribute to broader economic inefficiencies. By requiring businesses to navigate a patchwork of provincial regulations, these barriers limit the overall market efficiency and raise prices for consumers. The report finds that eliminating these barriers could lead to significant economic gains across Canada, with the potential to increase national GDP and reduce regional income disparities.

To tackle the trade barriers, the report proposes that provinces and territories adopt MRAs, which would allow different provincial standards to be recognized under a unified national framework. This approach aims to preserve space for diversity in provincial regulations while ensuring that goods and services can flow more freely across borders. This method may be less burdensome than full regulatory harmonization, which requires provinces to agree on uniform standards. Robust federal-provincial-territorial policy networks make truck transportation an ideal domain in which to implement MRAs. Their implementation here would showcase MRAs' effectiveness as a tool that might be viable for tackling other internal trade barriers that the CFTA's Regulatory Reconciliation and Cooperation Table (RCT) is studying.

The report also discusses the historical context and evolution of these interprovincial barriers, noting that despite the liberalization efforts following the 1995 intergovernmental *Agreement on Internal Trade*, many regulatory obstacles have persisted. These include differences in acceptable truck sizes and weights, permitting obligations, safety standards, and licencing requirements, which complicate the free movement of goods and services across the country. The paper also examines case studies from other jurisdictions, such

as the United Kingdom, where similar barriers were successfully reduced, to highlight the potential benefits of reform. These examples provide a roadmap for Canada, suggesting that modest, strategic adjustments to technical regulations could lead to substantial economic and environmental benefits, including reduced carbon emissions and lower transportation costs.

To support its economic analysis, the report uses data from Statistics Canada and a detailed model of Canada's economy that maps the interconnections between sectors and provinces. It quantifies the impact of trade barriers not just on the trucking industry but across the entire economy. By applying this model, the report illustrates how reducing trade barriers could benefit all provinces, but especially those with lower incomes, thereby addressing some of the existing economic inequalities in Canada. Specifically, we estimate that the gain from removing these internal barriers to be approximately \$1.6 billion annually. The report also identifies materially larger gains for smaller and lower-income provinces.

Overall, the report advocates for strategic policy reforms under the CFTA to reduce internal trade barriers in the truck transportation sector. By adopting a flexible approach through mutual recognition agreements, Canada can enhance its economic unity and unlock significant growth potential, making a strong case for regulatory reform as a catalyst for broader economic improvements. These changes have the potential not only to increase GDP but also to contribute to a more equitable economic landscape across the provinces. **MLI**

Le secteur canadien du transport par camion se bute aux importants défis économiques et juridiques posés par les barrières au commerce intérieur. Ces barrières relèvent les tarifs marchandises d'environ 8,3 %, notamment en raison de l'effet délétère des différences de réglementations entre provinces sur les coûts d'affaires et notre productivité. En présentant le potentiel d'action d'un accord de reconnaissance mutuelle (ARM) établi en vertu de l'Accord de libre-échange canadien (ALEC), ce rapport traite d'un moyen d'atténuer ces obstacles et de renforcer l'intégration économique, la productivité et le PIB réel du Canada.

En plus de relever les coûts directs du transport interprovincial, les barrières au commerce intérieur accroissent les inefficiences économiques. Comme elles contraignent les entreprises à s'engager dans un labyrinthe de réglementations provinciales, elles nuisent à l'efficacité globale du marché et augmentent les prix pour les consommateurs. Ce rapport constate que l'élimination de ces barrières ouvre la porte à d'importants gains économiques d'un océan à l'autre et peut augmenter le PIB national tout en diminuant les disparités régionales de revenus.

Pour venir à bout des barrières au commerce, le présent rapport propose l'adoption par les provinces et les territoires d'ARM permettant de reconnaître les différentes normes provinciales sous un cadre unificateur national. Cette approche vise à préserver un espace pour la diversité des réglementations provinciales tout en garantissant la libre circulation des biens et des services. Elle peut s'avérer moins restrictive qu'une harmonisation complète, qui exige l'accord des provinces sur des normes uniformes. La solidité des réseaux politiques fédéraux-provinciaux-territoriaux fait du transport par camion un domaine idéal pour les ARM. Leur mise en œuvre dans ce cas peut démontrer le potentiel de cet outil à abattre des obstacles au commerce intérieur différents de ceux étudiés par la Table de conciliation et de coopération en matière de réglementation (TCCR) de l'ALEC.

Ce rapport aborde également le contexte historique et l'évolution des barrières interprovinciales et note que malgré les efforts de libéralisation déployés dans le cadre de l'Accord sur le commerce intérieur intergouvernemental de 1995, de nombreux obstacles réglementaires persistent : différences de taille et de poids acceptables pour les camions, exigences de permis, normes de sécurité et certifications, qui compliquent la libre circulation des biens et services au pays. Afin de faire valoir les avantages potentiels d'une réforme, ce document présente également des études de cas à l'étranger, notamment au Royaume-Uni, pays qui a réussi à abaisser certaines barrières similaires. Ces exemples fournissent une feuille de route pour le Canada et présentent les avantages économiques et environnementaux substantiels – y compris une réduction des émissions de carbone et des coûts de transport – susceptibles de découler des rajustements modestes et stratégiques des réglementations techniques.

L'analyse économique présentée est validée au moyen de données de Statistique Canada et d'un modèle détaillé de l'économie canadienne qui dresse un tableau des interconnexions entre secteurs et provinces. Elle permet de quantifier l'impact des barrières au commerce non seulement pour l'industrie du camionnage, mais aussi pour l'ensemble de l'économie. La modélisation permet d'illustrer comment l'abaissement des barrières peut bénéficier à toutes les provinces, en particulier à celles aux revenus plus faibles, et remédier à certaines inégalités économiques au Canada. Plus précisément, le gain estimé résultant de l'élimination de ces barrières intérieures est d'environ 1,6 milliard de dollars par an. Ce rapport permet également de cerner des gains sensiblement plus importants pour les provinces plus petites et à plus faible revenu.

*En gros, afin d'abaisser les barrières au transport par camion, ce rapport plaide en faveur de réformes politiques stratégiques dans le cadre de l'ALEC. En adoptant une approche flexible reposant sur des accords de reconnaissance mutuelle, le Canada peut renforcer son unité économique et concrétiser un potentiel notable de croissance, une belle occasion de promouvoir une réforme réglementaire comme moyen de parvenir à des améliorations économiques générales. Ces changements peuvent non seulement augmenter le PIB, mais aussi améliorer l'équité économique pour toutes les provinces. **MLI***

Introduction

Truck transportation is vital to interprovincial trade in Canada and is critical to the production of so much throughout the economy. Any barriers that add unnecessary costs to shipping across provincial boundaries raise freight rates and indirectly add costs to producing most other goods and services. This can have potentially large negative implications for Canada's overall productivity. But this may not be top of mind for most Canadians. Total interprovincial trade in Canada was approximately \$416 billion 2019, for example,¹ but of that, freight trucking services accounted for less than \$6 billion. Despite its modest share of the total, the outsized effect that barriers in this sector can have on the overall economy should not be ignored. The value of trucking services themselves, after all, does not count the value of the goods they ship, which is considerably larger. Indeed, approximately three-quarters of the total value of interprovincial trade in Canada is shipped by truck.²

This paper examines the impact of internal trade barriers within Canada's truck transportation sector and explores a means of reducing those barriers under the Canadian Free Trade Agreement (CFTA). It highlights the economic significance of trucking in interprovincial trade, discusses the historical and regulatory context that has led to the imposition of internal trade barriers, and provides quantitative estimates of the economic impacts of these barriers. The paper uses case studies, including comparisons with the UK, to illustrate the potential benefits of easing such barriers. It also gives new estimates of the size of interprovincial barriers in the trucking sector and their significance for Canada's economy.

To make these estimates we use the latest available data from Statistics Canada and combine this with detailed quantitative methods from the international trade literature. The key results are easily summarized. First, by

comparing provincial spending on trucking services from within and between provinces, we estimate that interprovincial trade barriers cost an average of 8.3 percent nationally. Applied to nearly \$6 billion in total interprovincial trade flows within this sector, that is equivalent to approximately \$500 million per year in direct economic losses. But critically, these barriers also have cascading effects on other sectors, making the overall economic losses several times larger. Using a model that captures the full set of detailed interconnections between hundreds of sectors in all 10 provinces and three territories, we estimate that eliminating interprovincial trade barriers could increase Canada's real GDP by over \$1.6 billion per year. We also find the economic implications of these barriers vary across provinces and territories. The volume of interprovincial trade in trucking transportation services varies by province, which we display in Table 1 (page 10). This accounts for some of the variation, but importantly, there is also a spillover effect from lowering interprovincial barriers across national supply chains. Overall, we estimate that there is a potential range of per capita gains of \$16 to \$287, depending on the region, with the lower-income regions of Canada experiencing the largest potential gains. This analysis underscores the substantial economic benefits of addressing internal trade barriers in the truck transportation sector, not only in direct cost savings but also in broader economic improvements and reductions in regional inequality.

“ *Meaningful reform will require intergovernmental collaboration and innovative problem-solving.* ”

Removing these barriers is no small policy challenge. Meaningful reform will require intergovernmental collaboration and innovative problem-solving. To this end, we examine and propose the strategic use of mutual recognition (MR) under the framework of the Canadian Free Trade Agreement as a complement to regulatory harmonization. Briefly defined, mutual recognition requires a host province to accept the standards set out by the province from which the good or service originates. In contrast, harmonization requires establishing common standards that will be adopted uniformly by both the

TABLE 1: Interprovincial Trade in Trucking Transportation Services (2019, \$000)

Province	Interprovincial exports	Interprovincial imports
Newfoundland and Labrador	4,954	325,459
Prince Edward Island	17,910	44,210
Nova Scotia	71,697	334,995
New Brunswick	283,570	80,515
Quebec	883,942	762,820
Ontario	1,760,789	1,388,416
Manitoba	994,925	73,708
Saskatchewan	224,134	225,812
Alberta	1,128,927	719,954
British Columbia	230,960	1,481,306
Yukon	645	42,003
Northwest Territories	65,491	121,801
Nunavut	4	66,949

Note: Includes road transportation services for general freight (MPS484004) and specialized freight (MPS484005). Excludes road transportation support services (MPS488005).

Source: Authors' calculations based on Statistics Canada data table 12-10-0101-01.

host and originating province. This paper acknowledges that harmonization is indispensable for addressing certain barriers. For instance, carriers struggle to transport oversized loads in part due to the absence of common standards for bridge heights and minimum clearance requirements for construction zones. Mutual recognition is no solution for such infrastructure or physical feasibility issues; these can only be solved by way of harmonization. With that said, we explore the possibilities that MR can unlock and how MR serves as a middle ground that allows provinces to maintain their standards while recognizing those of other jurisdictions, consistent with Canadian legal pluralism and cooperative federalism. Internal trade reform efforts in Australia and the EU over the past 40 years are instructive for Canada: all things being equal, harmonization is often more challenging to achieve than mutual recognition. This paper generally prefers mutual recognition

over harmonization in order to achieve productive outcomes. More generally, mutual recognition agreements (MRAs) offer a flexible way to manage the regulatory disparities that give rise to trade irritants in a manner in line with Canada's constitutional and legal traditions.

MR may be more feasible and effective than harmonization for handling certain trade barriers. However, there is confusion and debate within Canada's internal trade policy community on how best to practically implement MR, whether through a blanket, fully comprehensive MRA or more targeted agreements. To be clear, there are other challenges, including the potential for regulatory capture by interest and industry groups opposed to interprovincial trucking reforms, along with the forces of bureaucratic diffusion and turf protection. The diversity in the means and objectives of provincial regulations, which are influenced by physical geography and local policy preferences, adds another layer of complexity to achieving mutual recognition and harmonizing regulations across Canada. This paper aims to provide an account of these issues and highlight a role for MR. It also offers novel estimates of the economic implications of barriers in this important sector.

The paper proceeds in three main parts. First, we lay the foundation by detailing the evolution of the truck transportation sector and the contemporary regulatory environment that has given rise to internal trade barriers. We also provide quantitative estimates of these barriers and a case study from the UK to illustrate the potential impacts of reform. Second, we explore the legal and regulatory mechanisms for trade barrier resolution, focusing particularly on mutual recognition and its consistency with Canadian legal pluralism, the conditions for its success, and the limitations of theory. Third, and finally, we quantify the economic benefits of liberalizing trade barriers in trucking; we estimate a significant increase in Canada's GDP from such measures.

Part 1: Internal barriers facing truck transportation

On a crisp autumn Monday in 1962, Prime Minister John Diefenbaker officially opened the Trans-Canada Highway in a ceremony at Rogers Pass, British Columbia (Canadian Museum of History 2017). Canada's east and west were finally linked by a highway connection, though it would take another 10 years before it was fully paved (Woodroffe, Sweatman, Middleton et al. 2010). The Trans-Canada Highway (TCH) was not only an immense national achievement that unified the world's second-largest country by landmass, but it heralded a new era in interprovincial trade and national economic growth.

The development of Canada's modern highway system enabled the advent of interprovincial trucking; until the TCH, the only highway connection linking the two ends of Canada was through the United States. One early 20th century (pre-TCH) cross-Canada road trip took two motorists 52 days and required the travellers to load their vehicles onto trains and ferries (MacEachern 2012). Nearly 100 years later, it takes Canadians a mere 100 hours of pure driving time to complete the same feat.

In the time since its inauguration, the TCH has evolved into Canada's national highway system (NHS), which presently encompasses over 38,000 km of highways. In 2016, the NHS carried over 20 billion vehicle-kilometres of truck travel (Council of Ministers Responsible for Transportation and Highway Safety 2019). Trucking is responsible for the movement of 35 percent of the goods that are transferred between provinces and territories (Task Force on Trucking Harmonization 2018, 4). And overall, the sector completes several tens of millions of shipments each year.

Highways and their construction are chiefly provincial responsibilities. Provincial governments decide on design, construction, safety standards, and financing (Transport Canada 2020). Additionally, provincial governments have a pronounced role in funding the maintenance and expansion of highways that sit within municipalities, in addition to local roads (Tremblay-Racicot, Wood, Kim et al. 2023, 4). Technically, the federal government's responsibility is limited to the maintenance and repair of the TCH inside of national parks. However, the federal government has long served as a vital coordinator and capital partner to make Canada's interprovincial highway system a reality.

Ottawa initially supplied anywhere from 55 to 83 percent of the costs to get the TCH built, depending on the province (Turgeon and Vaillancourt 2002, 164). Canada's federal government continues to be a vital supplier of funds for provincial highways and the TCH. For example, Ottawa announced in 2023 that it will contribute 50 percent of the \$306 million to add two highway sections to the TCH in Newfoundland, with the other half to be funded by the government of Newfoundland and Labrador (Executive Council, Transportation and Infrastructure 2023).

“ *As early as the 1970s provincial trucking regulations began evolving non-uniformly.* ”

Though Canada's central government has historically provided both critical funding and a coordination role to make interprovincial trucking a physical reality, as early as the 1970s provincial trucking regulations began evolving non-uniformly. The diversity of regulations that resulted from the distinctive regulations created internal trade barriers (Woodroffe, Sweatman, Middleton et al. 2010, 1). A notable early trade barrier stemmed from the variety of allowable gross weights for trucks: some provinces would not allow trucks on their highways when they were carrying heavier cargos that were nonetheless acceptable in other provinces. In 1988, Canada's governments arrived at a negotiated consensus in the form of a Memorandum of Understanding on Vehicle Weights and Dimensions (the “MOU”), under which provinces agreed to allow a common set of vehicle configurations (Woodroffe, Sweatman, Middleton et al. 2010, 1). It has been estimated that the 1988 MOU resulted in cost savings of \$142 million in 1992 alone (Canadian Trucking Research Institute 1994, S.3). There have been several amendments to the MOU since its initial form in 1988, expanding its scope.

Provincial protectionist guidelines implemented to protect home-province carriers have historically played a role in truck transport regulations that limit free trade. It was not until 2000, following the introduction of

pan-Canadian trade liberalizing commitments under the 1995 *Agreement on Internal Trade*, that the remaining economic regulations on interprovincial trucking were phased out (Monteiro 2011, 9). Prior to then, extra-provincial trucking firms were subject to entry limitations, as well as rate controls (mechanisms to set pricing for trucking services). Other components of trucking regulation further stifled competition. For instance, provinces would adopt safety requirements that were more costly for out-of-province trucks to meet than for their domestic counterparts (e.g. duplicative vehicle maintenance obligations), and there was a widely held belief that enforcement practices were stricter for out-of-province truckers than for domestic provincial truckers (Whalley 2007, 8).

Provincial regulatory authorities would constrain the competitive threat posed by Canadian out-of-province trucking companies by using “public interest” tests to determine admission into their markets: out-of-province trucking firms had the onus of proving that the province’s public interest would be served by allowing a new operator to enter the market (Chow and McRae 1990). Additionally, provinces required carriers to have permits to operate outside their home province, further reducing the level of competition and increasing trucking rates (Bonsor 1994, 162). In some cases, licences accorded to extra-provincial firms limited the number of routes they could serve when they were operating within the province (Bonsor 1994, 162). Though explicit entry and rate constraints have disappeared, protectionism can persist in more subtle forms, veiled as technical regulations.

Canada’s natural diversity does play a role in the non-uniformity of those technical provincial trucking regulations that give rise to trade irritants. For instance, the Canadian Shield enables trucks in Ontario to carry relatively heavier weights than provinces to the east and west (Task Force on Trucking Harmonization 2018, 11). Moreover, during the spring thaw, roadways lose some of their weight-bearing capacity – and Canadians understand winter is experienced differently across Canada (Asefzadeh, Hashemian, Haghi, and Bayat 2016, 667). Additionally, climate change has implications for the start and end of seasonal weight restriction periods in ways that may vary across the country.

The democratic electorate’s legitimate policy preferences may also generate interprovincial trucking irritants. Accepting heavier and bigger trucks imposes greater wear and tear on roadways, necessitating greater spending on

infrastructure to repair and maintain them. The same goes for any decision to accept new truck configurations and technology. In 1995, an Ontario study revealed that the advent of the liftable axle, which improves fuel economy for the trucking company but leads to more road wear, had necessitated \$300 million in road repairs in the province (Woodroffe, Billing, Middleton, and Sweatman 2011, 19). This is \$300 million that may have otherwise gone to health care, education, or any manner of social programming. Similarly, were a national overweight/oversized truck corridor to be created, it would require some provinces to remedy structural or overhead clearance deficiencies, requiring their governments to find the funds in their budget to do so. Thus, non-uniformity in trucking regulations could be the result of an electorate's revealed policy preferences.

Provincial regulators may have legitimate cause to regulate trucking in order to protect pedestrians and other drivers.

Variation in trucking regulation may also stem from divergent means to achieve public safety. Provincial regulators may have legitimate cause to regulate trucking in order to protect pedestrians and other drivers on roads and highways. Characteristics of trucks and their local environments affect acceleration and deceleration capabilities, turning paths, off-tracking (where the path of the rear wheels differs from the path followed by the front wheels during a turn), and sight distances (Donnell, Adolini, Torbic, et al. 2001). Regional land-use plans may also run at cross-purposes to reforms in truck transportation regulation (Tremblay-Racicot, Wood, Kim et al. 2023, 4).

Canada's diverse climate, topography, geography, and local or regional interests ought to be embraced. Canada's federal system is one that accepts each of the 13 subnational jurisdictions' different policy goals and recognizes that geographical diversity will have an impact on optimal policy formation. Balancing the economic benefits of increased truck transportation against other interests may lead to acceptable regulatory differences. However, Canada's governments must remain aware not only of outdated regulations and

superfluous differences, but also of the real possibility of regulatory capture by interests and industry groups averse to interprovincial trucking reforms – such as the railway industry – which has been the experience not only in Canada, but also in the United States and the United Kingdom.³ The following quote by the then-CEO of CP Rail before Canada’s Senate Committee on Transport and Communications illustrates the adversarial relationship between the rail and truck sectors:

There is a creeping insidious movement going on in North America to have larger, longer, and heavier trucks. Every time truck sizes increase, it makes it harder for us to compete.

– Rob Ritchie, then-President & CEO, CP Rail System

In recent years, both government and industry have identified regulatory irritants affecting interprovincial trucking. In 2016, Canada’s governments struck a national task force on trucking harmonization, which released a report in 2018 that identified where the impediments lay. In 2023, the Canadian Trucking Alliance (a federation of provincial trucking associations) released its own report identifying interprovincial trucking barriers. A few illustrative examples that these reports identified include:

- differing driver qualifications for long combination vehicles (LCVs);
- variations in trailer registration validity periods;
- 60 ft. 6 in. semi-trailers not uniformly accepted across Canada;
- differing weight allowances for self-steer quad semi-trailers depending on tire size;
- varying caps on the maximum sizes of tow trucks;
- burdensome and non-harmonized oversize/overweight permitting processes;
- absence of a national oversize/overweight corridor;
- non-uniform winter road maintenance standards;
- insufficient access to rest areas; and
- inconsistent oversight and monitoring of trucking companies.

Quantitative estimates of internal barriers

Enumerating an extensive list of barriers to trade facing Canada's trucking industry is invaluable, particularly for diagnosing and resolving trade barriers. And the previous section presented many such examples. However, we can go much further and estimate the potential total size and scale of the barriers facing the industry and report them in an intuitive manner. Specifically, based on well-developed methods from the international trade research literature, we use detailed data on the flows of various types of trucking services across provincial boundaries in Canada to estimate the "tariff equivalent" size of policy-relevant barriers to trade. Specifically, we estimate a single number that captures the potential effect of all regulatory barriers, certification differences, and other monetary or non-monetary frictions. A tariff equivalent measure of 10 percent, for example, means that the cumulative effect of interprovincial barriers is equivalent to a 10 percent tax levied on the trucking sector on the value of interprovincial flows. Some of these costs will be real for individual firms – namely, the compliance costs to abide by the various rules and restrictions – but other costs will be foregone opportunities or other inefficiencies that lowers trucking productivity.

To estimate the "tariff equivalent" size of policy-relevant barriers to trade, we examined the pattern of trucking services across provincial borders. Consider some simple intuition first. If all buyers of a particular good or service face no trade costs from any sources (no time delays, no distance to travel, no information problems, no regulatory differences, and so on) then it doesn't matter where the buyer is located. They always have access to the lowest price supplier for their needs. But as costs of trading increase, then it becomes progressively more difficult for non-local buyers (that is, buyers in another province, say) to purchase from the same sources as local buyers. In effect, trade costs shift the pattern of all our spending towards more local producers where those costs are lower. By systematically comparing where trucking services are purchased and who is supplying them across provinces, we can estimate what trade costs are across each of Canada's provincial borders.

Mathematically, we can measure this by using the fraction of total spending by buyers in each province on trucking services supplied by firms in all other provinces. We then compare this to the fraction of total spending by those same buyers on their own local trucking suppliers. When these shares

are combined with empirical estimates of how sensitive trade flows are to trade costs, we can effectively back out the size of trade costs in Canada. This approach to measuring trade costs is known as the Head-Reis Index and has been a well-established tool for many years. If π_{ni} is the fraction of province n 's spending on trucking services from suppliers located in province i , the trade costs between these two provinces are given by

$$\tau_{ni} = \left(\frac{\pi_{ni}\pi_{in}}{\pi_{nn}\pi_{ii}} \right)^{-1/2\theta},$$

where θ captures how sensitive trade flows are to trade costs. That is, it is the *elasticity* of trade, for which many high-quality estimates exist for goods. Unfortunately, few estimates exist for trucking services, but generally a value of 5 is used for services, which means a 1 percent increase in trade costs decreases trade flows in the services sector by 5 percent. We explore the sensitivity of our results to alternative reasonable values of this parameter but none of our key results around the potential economic gains from liberalizing trucking transportation services trade depend on this to any considerable degree.

Of course, much of the trade costs that we would measure in this way go far beyond what are relevant for policy-makers in Canada. It will unavoidably take considerable time to truck items from Vancouver to Toronto. Not only does it take fuel, labour, and capital to complete the trip, but time itself is a cost to the businesses involved. The goal of this paper is to identify artificial barriers to trade that go above and beyond the natural costs of traversing Canada's vast geography. To estimate policy-relevant costs, we also use methods that are well established in other contexts. We first estimate how much distance between provinces accounts for variation in the trade costs τ_{ni} , estimated above. The portion of trade costs that are *not* explained by distance may therefore be taken as an estimate of costs that are potentially policy relevant. We cannot know for sure that we have eliminated all natural trade costs, but this is a highly informative estimate that captures most of what is within τ_{ni} . We refer to this measure of potentially policy-relevant trade costs as our estimate of non-distance costs in Canada. To be clear, this estimate does not perfectly isolate only policy-relevant barriers, since there may be many unobservable trade costs both unrelated to distance and not directly controlled by policy-makers. Cultural or linguistic differences between provinces, for example, or climatic differences that inhibit interprovincial road transportation trade may be two examples.

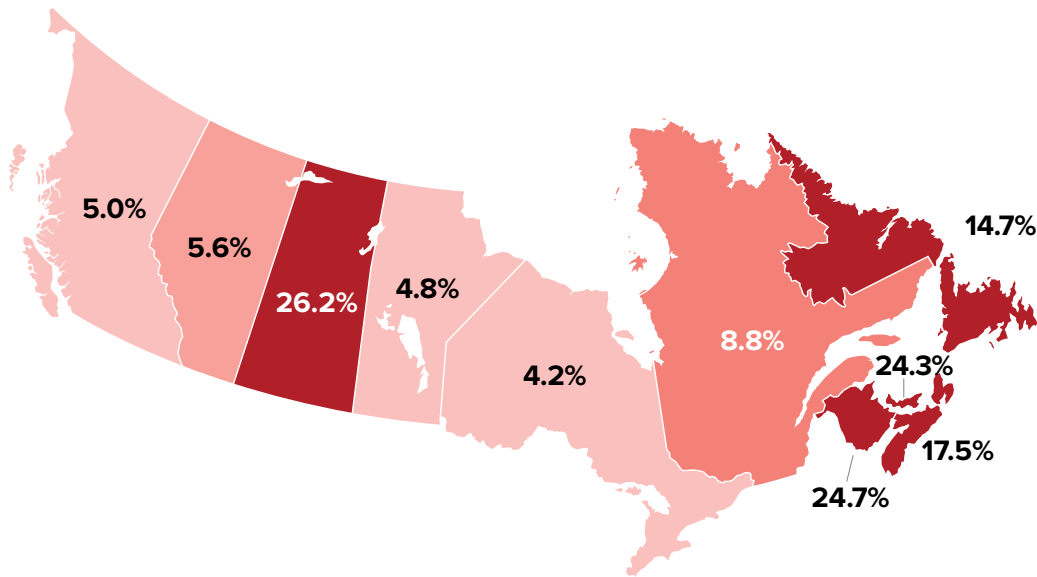
With that caveat in mind, we estimate that, overall, interprovincial barriers to trade in the truck transportation sector add an average of 8.3 percent to the cost of goods shipped. While lower than the costs of trade barriers observed in many other services, this figure indicates that this sector faces considerable barriers to trade. The additional costs affect the costs of many other goods, since so much is transported by truck. Later in this report, we quantify the economic implications of these trade barriers. Before turning to our more detailed estimates, consider the \$6 billion in trucking services traded across provincial boundaries that are subject to this cost. At 8.3 percent, those costs are equivalent to approximately \$500 million per year in economic losses. Trade barriers on trucking services have cascading implications on other sectors throughout the economy, meaning that these losses, as we show later, are several times larger.

“Trade barriers on trucking services have cascading implications on other sectors throughout the economy.”

Using more detailed data on trucking services traded between provinces and territories, we can separately estimate the size of trade costs that different sub-categories face. We estimate that moving services face trade barriers that are more than double that for trucking services overall, at just over 19 percent. We further estimate that at nearly 13 percent, interprovincial trade costs for specialized freight transport services are higher relative to general freight transport services, at just over 10 percent.

We also estimate the average trade costs within the trucking sector for each of Canada’s provinces (see Figure 1). A clear pattern emerges: smaller, and generally lower-income regions have larger average trade costs in this sector. We estimate tariff-equivalent interprovincial barriers in this sector in excess of 24 percent for New Brunswick and Prince Edward Island, and nearly 18 percent for Nova Scotia. Saskatchewan is a notable exception to the pattern, as it is a smaller province in terms of population but a high-income one. We estimate average trade costs of more than 26 percent for that province. Additional

FIGURE 1: Average internal trade costs for the trucking industry in Canada (2019)



Note: Displays the tariff-equivalent measure of average policy-relevant interprovincial trade costs facing the trucking industry for each province in 2019.

Source: Authors' calculations using Statistics Canada interprovincial trade data. See text for details.

research is required to explain why this province stands out. Meanwhile, the larger provinces by population – Ontario, Quebec, British Columbia, and Alberta – have significantly lower costs of between 4.2 and 8.8 percent. While lower, these costs are still high – equivalent to adding an additional GST (or more) to each trucking service transaction that crosses a provincial border.

These results suggest there is considerable scope for easing interprovincial trucking barriers, but we do not identify the specific underlying causes of them. Given the countless differences in rules, regulations, standards, certifications, inspections, and so on, between provinces, there are many overlapping and interacting sources of trade friction between the provinces in this sector. Further work would be required to identify what specific policies account for the greatest internal trade costs. This paper suggests, however, that they are both large and, as we will soon see, economically detrimental to Canada's overall economy.

A case study from the UK

An earlier section notes several regulatory irritants that persist in Canada, issues that rise to the level of what can be considered trade barriers. Some relate to non-uniform regulations in truck weights and sizes. We can look to the experience of the UK to understand and appreciate the impact that increasing limits can have on one economy.

In 2001, the UK, in the face of much opposition from several stakeholder groups including the railway industry, increased the maximum truck weight from 41 tonnes (91,390 lbs) to 44 tonnes (97,003 lbs) (Butcher 2009, 4). Two leading justifications for the increase were environmental and cost (Butcher 2009, 4). Larger trucks would lead to fewer truck trips, and the cost to transport a unit of load would fall.

Indeed, two years after the regulatory change, one estimate (McKinnon 2005) calculated:

- 134,000,000 fewer annual truck kilometres travelled;
- 50.6 million litres in annual fuel savings; and
- a 135,700 tonne reduction in annual carbon dioxide emissions.

At least in theory, consumers stood to benefit from the reduction in transportation costs that accompanied the reforms. It should be noted that the railway regulator responded to the regulatory change by halving the infrastructure charges that rail-freight operators paid in order to remain competitive.

The UK experience is instructive for Canada as it shows the benefits (especially in the long run) of modest adjustments to relatively obscure technical provisions.

Conclusion

As will be discussed next, Canada's CFTA and its Regulatory Reconciliation and Cooperation Table (RCT) is an ideal institution to lead the task of resolving the trade irritants found in the trucking transportation domain. An RCT-led process that reduces trade barriers while also reserving space for legitimate sub-national policy requirements will yield important economic benefits to Canada in an era where growth is so desperately needed.

Part 2: Reducing barriers under the CFTA

Canada is internationally unique in its recourse to a domestic trade agreement to manage liberalized internal trade. Canada's governments can leverage this 30-year-old, purpose-built agreement to reduce the irritants that interprovincial trucking faces. This paper suggests that mutual recognition may be a reasonable approach for tackling many, though not all, of the regulatory discrepancies that have given rise to trade irritants in the trucking sector. A successful Mutual Recognition Agreement drafted and implemented under the auspices of the CFTA would serve as a playbook and case study for future pan-Canadian CFTA mutual recognition efforts.

In 2017, Canada's governments replaced the 1995 *Agreement on Internal Trade* with the *Canadian Free Trade Agreement*. One of the many changes that accompanied the new agreement was the introduction of the Regulatory Reconciliation and Cooperation Table (RCT). The RCT provides a formal venue for the reconciliation of trade barriers. There is precedent for such an institution in the United States–Canada Regulatory Cooperation Council (RCC). Launched in 2011, it brings together regulators from both countries to reduce unnecessary differences.

Each of Canada's governments appoints a representative to the RCT. Chaired on a rotating basis, the RCT can add new items for reconciliation to its ever-growing work plan. The RCT then delegates the work of resolving a specific difference to a working group. These working groups are typically extant groups of subject matter experts. For example, the RCT delegated the reconciliation of building codes to the Provincial/Territorial Policy Advisory Committee on Codes (PTPACC) whose members have relevant subject matter expertise.

In Annex 404, the CFTA explicitly identifies mutual recognition (MR) as one of the methods for resolving trade irritants. Under MR for trade liberalization, a province or territory retains its own standards, but agrees to recognize another jurisdiction's standards or testing procedures for those same goods or services. One simple illustrative example of MR in action is a Nova Scotian on a cross-country trip through Canada will find her driver's license recognized in each province and territory she passes through.

Recently, Canada's governments have signalled a desire to prioritize the use of MR by way of the introduction of Item 30 to the RCT work plan. Item

30 explicitly calls for the identification of regulatory measures that might benefit from being subject to mutual recognition. This is a clear enunciation of support for MR as a means to tackle trade barriers. Item 30 signals that Canada has awakened to the same realization that Europe came to in the late 1970s, and that Australia came to in the mid 1980s: when it comes to internal market liberalization, harmonization of regulations and standards is exceptionally taxing, whereas mutual recognition offers more flexibility and may be more likely to be accepted by all parties. MR may be a suitable approach for much (though not all) of the regulatory disharmony in truck transportation.

“Mutual recognition may be a suitable approach for much (though not all) of the regulatory disharmony in truck transportation.”

The introduction of Item 30 has stirred confusion and debate within the nation’s internal trade policy community as to how best to use MR to manage trade barriers. One perspective is that Canada’s governments should enter into a blanket, fully comprehensive Mutual Recognition Agreement (MRA) to which governments may take exceptions. Another perspective is that MRAs should be surgically crafted to address specific horizontal (e.g., trade in services) or vertical (e.g., health care occupational licensing) regulatory disharmony. Further complicating matters, to date there has been little guidance either from Canada’s First Ministers or Canada’s Committee on Internal Trade (a council of ministers from each of Canada’s federal, provincial, and territorial governments). Consequently, there has been little progress on putting Item 30 into action.

This paper encourages a circumscribed MRA be considered to manage a set of trucking regulations that can serve as a trial and case study in the uptake of MR under the CFTA. An all-of-economy MRA is a daunting and complicated endeavour that will not only take time to negotiate but require a great deal more capacity than currently exists, and the parties to the CFTA

would be well-served to start with a limited domestic MRA that is constrained in scope. Since its innovation in 2017, the RCT itself has evolved through trial and error. Its processes have changed to reflect the learning and experience of its members. The same ought to be sought and expected from its recourse to MR. The truck transportation domain is ripe for experimentation for three chief reasons. First, there exists a number of well-established federal-provincial-territorial (FPT) bodies (such as the Intergovernmental Task Force on Vehicle Weights and Dimensions Policy and several other committees that ultimately report to the Council of Transportation Ministers) for the RCT to tap as the relevant working group(s). Second, there exists a number of trade barriers that MR is well-placed to handle (discussed in greater detail later in this paper). Third, Canada's subnational governments have considerable practice negotiating interprovincial trucking rules owing to their experience with the pan-Canadian MOU on truck weights and sizes. An MRA for a set of trucking regulations is well within the expertise of Canada's regulators and internal trade policy community.

In the international trade context, MRAs typically have narrow focuses (e.g. telecommunications, pharmaceutical goods manufacturing, electrical safety). Through the undertaking of an MRA for truck transportation services, from negotiation and drafting through to implementation, Canada's governments will reap lessons of general applicability, and learn how regulators from 14 governments undertake the process of recognizing the conformity assessment procedures or technical regulations of their counterparts across the country. Learning from their experiences would prepare the internal trade policy community to set up and implement a more comprehensive MRA similar to Australia's domestic mutual recognition arrangement and to which Canada should aspire. Canada's internal trade story is one of gradual, learned progress. Since 1867, Canada's economic union has gone from one with intercolonial tariffs collected by border agents stationed at Coteau-du-Lac, Quebec, who monitored the passage of goods between Upper and Lower Canada, to its current integrated state undergirded by the world's first domestic trade agreement. The gradual uptake of MR is perfectly consistent with the nation's internal trade liberalization history.

Mutual recognition is consistent with Canadian legal pluralism

Mutual recognition is a compromise between two extremes. At one end of the spectrum is strict territorialism; at the other is universalist harmonization (Berman 2007, 1195). MR offers a middle ground wherein Canada's governments can preserve their own standards while actively opting to recognize those of others. As a means to resolve trade irritants, MR is consistent with Canadian legal pluralism and cooperative federalism.

Legal theorist Paul Berman's stylized framework of the global legal system can be applied to Canada. The domestic Canadian legal system is an interlocking web of jurisdictional assertions by Canada's provinces, territories, Indigenous governments, and the federal government, as well as non-governmental normative communities (e.g. from the trade context, the CFTA, the New West Partnership Trade Agreement, and other CFTA Article 1203 agreements). The coexistence of these several legal and quasi-legal systems gives rise to a state of legal pluralism. The pursuit of MR as a means to resolve trade irritants is consistent with Canada's tradition of legal pluralism. It both (i) respects provincial autonomy and public policy differences, and (ii) "inculcat[es] ... tolerance, dialogue and mutual accommodation" (Berman 2007, 1236) amongst Canada's governments. In a likeness to the *Constitution Act, 1867* with its division of powers at sections 91 and 92, mutual recognition does not demand a "hierarchy of substantive norms" (Berman 2007, 1166) but rather, offers a means to manage the multiplicity of overlapping legal systems.

Leveraging MR and entering into a pan-Canadian MRA to tackle regulatory irritants is fully consistent with Canada's constitutional and legal traditions. It offers Canada's governments a more acceptable middle road between the two extremes of uniformity and the status quo – a crucial precondition for a consensus-based institution like the CFTA.

Mutual recognition and conditions for success

Canada is no stranger to Mutual Recognition Agreements with international counterparts. The federal government and its various regulatory bodies have entered into a host of MRAs in part to support robust bilateral or multilateral trade. In the decades since WWII, the world has seen the rise of sophisticated and divergent regulatory regimes, and in response, an ascendancy

of transgovernmental regulatory networks. Regulatory experts (and their institutions) across the world have developed personal and professional relations with one another as a means to manage increasingly complex and divergent approaches to regulation. Canada has witnessed these same forces domestically amongst its subnational governments. Sophisticated regulatory regimes have emerged across the country to manage everything within provincial jurisdiction, from education to the environment.

Some scholars contend that networks of regulators, rather than treaties and supranational institutions, are the primary means of interjurisdictional regulatory cooperation (Raustiala 2002, 10–11). And it is the “repeated interactions” of members of these networks that foster interjurisdictional regulatory cooperation (Verdier 2009, 120). This formally manifests internationally in the shape of decentralized networks of peer regulators such as the International Organization of Securities Commissions (IOSCO) or the Basel Committee on Banking Supervision (BCBS).

Canada’s governments commonly strike federal-provincial-territorial committees or working groups composed of regulatory subject matter experts.

Domestically in Canada, analogous networks of peer regulators have long existed. Canada’s governments commonly strike federal-provincial-territorial committees or working groups composed of regulatory subject matter experts. This recognizes a reality in Canada – namely, that prominent areas of public policy require intergovernmental collaboration. In 2020, scholar Johanna Schnabel counted 35 domestic intergovernmental councils, which are a specific type of FPT institution (Schnabel 2020). Canadian regulators already have formal venues in which to meet, collaborate, and exchange ideas. That these bodies already exist positions Canada exceptionally well for attempts at mutual recognition.

The advent of the CFTA and its RCT are a natural progression in the rise of complex regulatory landscapes across Canada. No longer do internal

trade barriers take the form of overt tariffs and quantitative restrictions. Rather, they are (in some cases, unintended) consequences of divergent approaches to regulation. The RCT sits a layer above specific FPT regulatory networks and, when prompted by politicians, acts akin to a forcing function to secure reconciliation, mutual recognition, or harmonization. Since the RCT's inception in 2017, its appointed members have delegated to an existing body of regulators (termed "Working Groups") the task of resolving regulatory irritants in a manner consistent with public policy objectives. As an example, the RCT has delegated to the regulators who form the Occupational Safety and Health Committee of the Canadian Association of Administrators of Labour Legislation (CAALL-OSH) the reconciliation of divergent workplace safety regulations that make it difficult for labour to move (and firms to operate) across internal borders. No doubt these FPT bodies already undertake various reconciliation efforts in their normal course of operation. However, the RCT introduces new reform imperatives to these extant bodies, especially when the RCT itself is specifically directed to do so by politicians.

At its core, the process of mutual recognition boils down to trust. If one jurisdiction is to accept another's technical regulations, conformity assessment procedures, and/or the decisions of conformity assessment bodies, it must have faith in both the standards themselves and the application of those standards. That Canada already has a comprehensive set of regulatory networks covering everything from economic development to immigration to Indigenous reconciliation and beyond is a huge boost to the RCT and the prospect of internal trade liberalization via mutual recognition. There already exists a baseline of faith and confidence in several counterpart regulatory regimes by virtue of these regulatory expert networks.

For trade barriers arising out of discordant truck transport regulations, there are several FPT regulatory networks that the RCT could tap for assistance with a mutual recognition agreement. These include the Task Force on Vehicle Weights and Dimensions Policy, and the Canadian Council of Motor Transport Administrators. Pre-existing FPT truck transport regulatory institutions provide an opportunity for RCT members to resolve some of the discordant trucking regulations in a manner consistent with public policy objectives.

Of course, mutual recognition is not a cure-all for every truck transport trade irritant. Several of the trade barriers that the industry faces are either

unsolvable by mutual recognition or are much better solved by harmonization and uniformity. For example, carriers face barriers when transporting oversized or overweight loads partly because there are no common standards for bridge heights or minimum clearance requirements for construction zones. Mutual recognition is no solution for such infrastructure or physical feasibility issues; the routes are literally unpassable, and these limitations can only be solved by way of harmonization. To solve this set of barriers, Canada's governments must agree on an oversized/overweight corridor strategy, which would include harmonized standards for bridge heights and construction zone clearances.

However, many truck transport barriers could be well served by recourse to a Mutual Recognition Agreement. Generally, where a common standard is not absolutely necessary, mutual recognition offers the most expedient path to resolution as it does not require a province to adopt a new standard. One example is the mutual acceptance of driver qualifications for long combination vehicles; a regulator should focus on the competence, skill, and substantive training of drivers rather than on whether they possess a specific qualification. A second example is the mutual recognition of other provinces' farm licence plate rules; provinces need not adopt uniform farm plate issuance regulations, but rather recognize those of another province. A third example is a scheme for mutually recognizing overweight/oversized load permits issued in another province: instead of requiring a province-specific permit from each and every province through which a truck travels, provinces should recognize the permit issued by any one jurisdiction. All three of these examples could be resolved were the provinces to use a device commonly found in European Union mutual recognition instruments: a "common platform" establishes predefined criteria that bridge substantive differences between jurisdictions.

Mutual recognition efforts are more likely to succeed if regulatory officials are given the opportunity to build trust and confidence in foreign regulatory regimes, which does not occur overnight. Luckily, in the area of trucking, pre-existing FPT bodies include members who have long met regularly, which means that a foundation of trust already exists so there is a higher likelihood that mutual recognition may prevail.

Theory limitations, countervailing considerations, and federal “side payments”

According to the theory of transgovernmental regulatory networks, RCT working groups will inculcate regulatory alignment across Canada through the cumulative process of repeated engagement and acculturation (Verdier 2009, 115). Transposing the insights of Anne-Marie Slaughter, RCT working groups have the advantages of speed, flexibility, and capacity that formal institutions (often stalled by politicking) often do not (Slaughter 1997, 191).

However, as legal scholar Pierre-Hugues Verdier has noted, this may not always occur as regulators are still tied to domestic stakeholders (i.e. workplace superiors, industry groups, and other interested third parties) by incentives and accountability structures (Verdier 2009, 115). Job security, promotions, and other social and professional benefits accrue to those regulators who implement the goals of their political superiors, who themselves are accountable to voters. It would be simplistic to think that any RCT working group is impervious to the forces of interest group lobbying, turf protection, or asymmetric knowledge between regulators and firms.

Moreover, the process of regulatory convergence may generate unequal outcomes for provinces and territories, which could slow the progress of MR efforts (Verdier 2009, 115). Take, for example, a province that previously earned relatively more in permitting fees for out-of-province farm vehicles or oversized loads travelling on its highways, that is now being asked to mutually recognize the permits or certifications issued by another jurisdiction. Once this agreement comes into effect, this province might lose a relatively greater source of revenue, which it will now have to find elsewhere. For this reason, the province might resist MR for permits. More generally, the costs and benefits of MR may fall differently on Canada’s subnational jurisdictions. Verdier notes the possibility of “side-payments” to overcome this problem (Verdier 2009, 124). In international trade, trade adjustment assistance programs are common means of helping those affected by the displacement that follows trade liberalization. Implementing side-payments introduces its own complexities, and the potential for provinces to “hold out” for more remunerative compensation packages does exist. This concern is particularly acute if the federal government demonstrates an ongoing willingness to pay off provinces and territories to lessen or remove barriers.

It is outside the scope of this paper to discuss how to repeatedly incorporate side-payment schemes, though federal officials have considerable experience

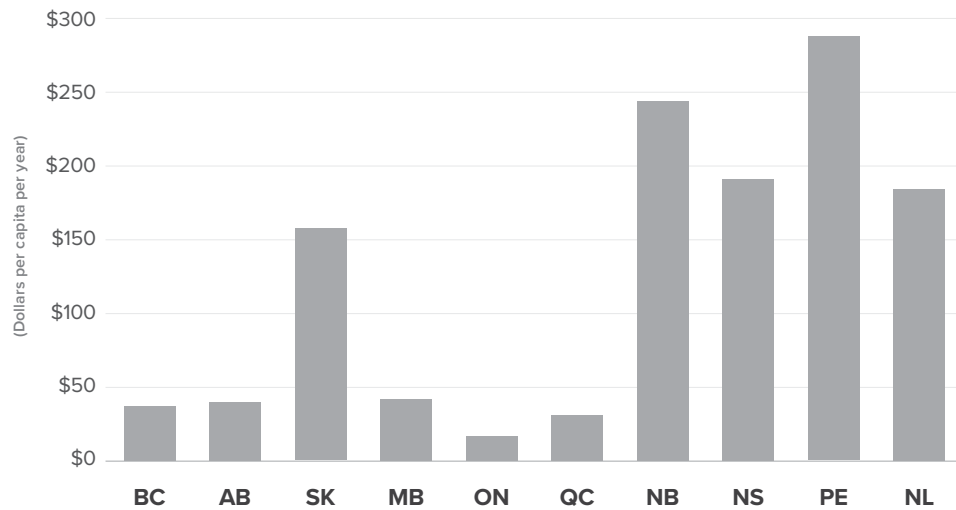
collaborating with their provincial and territorial counterparts in working towards common goals. This paper merely mentions side-payments here as one option federal policy-makers might consider. Canada's federal government is well positioned to provide compensatory side-payments to provinces and territories to overcome uneven distributive consequences arising from mutual recognition in the context of internal trade. Cost-benefit analyses could show that even given the cost of such payouts to help overcome reluctance to MR, the Canadian economy is better off in the long run with an MRA in place

Part 3: The potential economic gains from easing barriers in trucking

While much of what we explored in the previous section may lead to challenging and difficult policy reforms for governments and industry alike, the economic gains are significant. In this section, we briefly quantify the size of gains from liberalizing trucking transportation costs in Canada. We build on well-established methods for estimating those gains and find that considerable increases in Canada's annual economic productivity might be possible.

Estimating what Canada's economy might look like in a hypothetical situation where there are no trade costs facing trucking services, or any other sector for that matter, requires going beyond the data itself. After all, such an economy does not exist, so we can only use the best tools available to project what might occur were such a liberalization to take place. For this paper, we use well-established tools from the research literature to model Canada's economy across several hundred sectors in each of the 10 provinces and three territories. This model incorporates all trade flows from the data, along with intersectoral linkages that capture all supply chain linkages both between and within sectors. With some assumptions – motivated by the empirical international trade literature – we model how trade flows, sectoral production, employment, interprovincial migration, prices, wages, and so on, respond to reductions in internal trade costs facing the trucking sector. We then record the projected gains in terms of real GDP for Canada as a whole. This may be interpreted

FIGURE 2: Gains (in real GDP per capita) from removing interprovincial trade barriers in Canada’s truck transportation sector



Note: Displays the estimated per capita change in each province’s real GDP from eliminating measured interprovincial barriers within the truck transportation sector.

Source: Authors’ calculations. See text for details.

as pure productivity gains to Canada’s economy. We refer readers to detailed elaboration of the precise model specifics to Tombe and Winter (2021) and to Manucha and Tombe (2022), which we build upon and update for this paper.

To begin, consider a simple exercise aimed at eliminating measured interprovincial trade barriers exclusively within Canada’s truck transportation sector. In this scenario, we maintain the current trade barriers facing other transportation modes including other transit or ground transportation services. Additionally, we keep support activities for transportation and interprovincial trade costs constant as well. The focus here is on trucking only. This targeted reduction in trade costs will vary in magnitude across different trading pairs but will effectively reduce interprovincial trade costs in this sector by an average of 8.3 percent nationally. As discussed in the previous section, this reduction would lead to cost savings of approximately \$500 million per year for the economy, assuming only the direct effects of such trade costs are considered. However, given the pivotal role of truck transportation in supplying critical services to numerous sectors across the economy, the broader spillover effects of diminishing trade costs in this domain are significant. The full model simulation will capture these additional benefits.

We estimate that eliminating interprovincial trade costs facing the truck transportation sector would increase Canada's aggregate real GDP by just over \$1.6 billion per year. The significant increase over the direct effects of the trade costs is notable, highlighting the importance of using broader models of the economy to capture all indirect effects. We also estimate material gains throughout the country, with all provinces and territories experiencing gains. These vary from gains of between \$16 and \$39 per capita among the four largest provinces, which account for approximately half of the national aggregate gains, to larger gains of \$157 per capita in Saskatchewan and as high as \$287 per capita in Prince Edward Island. Figure 2 displays the province-by-province per-person gains. Except for Saskatchewan, for reasons that require additional research to explain, the provinces that would see the largest potential gains are also those that have currently lower relative per-capita incomes and economic activity. Easing trade barriers within this sector therefore would not only boost overall national productivity but would contribute to lower regional inequality and income differences.

Conclusion

This paper reveals the substantial economic costs of internal trade barriers in Canada's truck transportation sector. We estimate that these barriers cost an average of 8.3 percent across the sector. The paper further estimates the potential economic growth that would be realized were these barriers to be eliminated; it finds that Canada's overall real GDP could increase by over \$1.6 billion per year as a result. However, to achieve these gains, the provincial, territorial, and federal governments must make policy reforms. This paper suggests that Canadian governments can use mutual recognition agreements under the Canadian Free Trade Agreement to solve several of the trade barriers that the truck transportation sector faces in a manner consistent with principles of Canadian federalism and legal pluralism. Such agreements could substantially streamline regulatory disparities, thereby unlocking significant economic potential and enhancing national economic unity. **MLI**

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Endnotes

- 1 Calculated by the authors using Statistics Canada's data tables 12-10-0088-01 and 12-10-0101-01.
- 2 Calculated by the authors using Statistics Canada's Canadian Freight Analysis Framework, 2017.
- 3 For recent illustrative examples, see Fisher 2003. See also National Union of Rail, Maritime and Transport Workers [RMT] 2023.

constructive *important* *forward-thinking*
high-quality *insightful*
active

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