



Special Report

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Ontario & Quebec Trade Agreement: What's the Deal?

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The *Ontario-Quebec Trade and Cooperation Agreement (OQTCA)* took effect on October 1, 2009, and is designed to liberalize trade and help create a common economic space between the two provinces. Interprovincial trade liberalization took a first major step forward in 1995 when Ottawa introduced the *Agreement on Internal Trade (AIT)*, a set of principles designed to reduce barriers to interprovincial trade. However, the agreement overlooked a number of key issues, particularly with respect to labour mobility and regulation. Meantime, other Provinces have since built on the AIT. In April, 2009, the *Trade, Investment and Labour Mobility Agreement (TILMA)* between Alberta and British Columbia took full effect, and the *Western Economic Partnership* between British Columbia, Alberta and Saskatchewan was signed in September, 2009. The OQTCA consolidates some of the existing agreements between Ontario and Quebec and builds on the AIT.

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Economic Size and Integration: Ontario and Quebec combined for nearly \$890 bln in gross domestic product in 2008, or more than half of Canada's total output. The region remains the biggest driver of Canada's economy, accounting for more than 60% of real GDP (*Chart 1*), and is the fourth largest economic zone in North America after New York, California and Texas. The two provinces are also highly integrated, with more than \$70 bln in cross-border trade in 2004. While losing share through most of the decade, both provinces still rely heavily on the manufacturing sector, which represents a combined 19% of output and 13% of employment in the two provinces.

Key Impacts: The agreement's biggest impacts are in the areas of labour mobility, regulation and joint initiatives. Benefits will be felt across a wide range of sectors, with businesses that operate in both

CHART 1
ECONOMIC HEAVYWEIGHTS
Share of Canadian Real GDP (%)

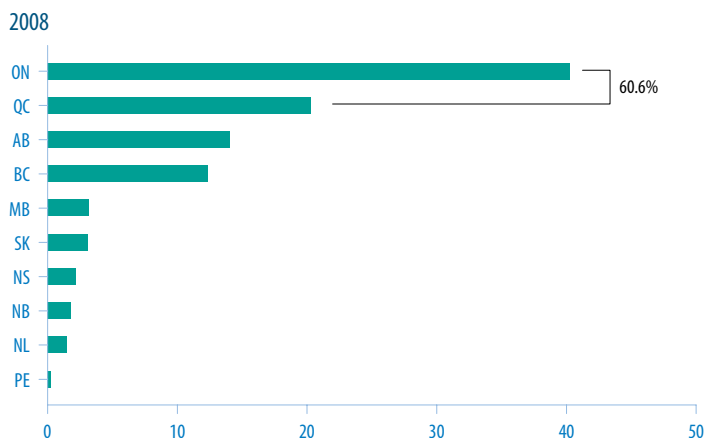


CHART 2
ON THE MOVE
Canadian Interprovincial Migration (4-qtr sum)



provinces the biggest immediate winners thanks to a reduced administrative burden.

Labour Mobility

Ontario and Quebec have agreed to mutual recognition of labour qualifications, matching a recent amendment to the AIT that allows about 300 occupations to take their certification to another province. For example, an Ontario nurse can now present his/her professional documentation in Quebec without re-taking any required examinations or re-applying for certification under the different provincial banner. This will facilitate a more efficient movement of labour between the two provinces, and comes at a time when Canadian interprovincial migration is running at the highest level since the early-1980s (*Chart 2*)—in the year ended 2009Q2, about 36,000 people migrated between Ontario and Quebec.

Regulation

Regulatory changes largely focus on cutting costs and making operations more efficient. In the **financial services sector**, regulations on derivatives, credit unions, mortgage brokers, insurance and securities will be harmonized to allow for less administrative burden on companies operating in both provinces. In the **transportation sector**, harmonized rules ranging from emission standards to size/weight rules on commercial vehicles will create a more efficient operating environment for companies that ship between the two provinces. In areas like **arts and culture**, exceptions will be made to allow each province to maintain their own identity. In the **food industry**, neither province will be allowed to have technical packaging measures that restrict the free flow of product across the provincial border.

Joint Initiatives

Both provinces will continue to encourage **high-tech innovation** (ie: in the Waterloo and Ottawa areas), and strive to improve the image of the manufacturing and tourism sectors. The Provinces are also conducting a feasibility study with the Federal Government to develop a **high-speed rail link** through the Ontario-Quebec shipping corridor. Along with continued improvements to road, rail and airport infrastructure, this will help to make Canada's busiest transportation corridor more efficient. In the **energy sector**, the Provinces will work toward an emission trading system.

The Bottom Line: The Ontario-Quebec Trade and Cooperation Agreement is another step in the right direction toward freeing up interprovincial trade—a critically important development for the long-term health of the Canadian economy. The primary beneficiaries of this particular agreement will be businesses which operate in both provinces, and are able to reap cost and efficiency benefits thanks to more aligned regulations.

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