



The productivity challenge: For a strong, resilient domestic market

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About the Centre for Productivity and Prosperity – Walter J. Somers Foundation

The Centre for Productivity and Prosperity – Walter J. Somers Foundation has a twofold mission. First of all, it is devoted to research on productivity and prosperity, mainly in Quebec. The Centre then shares its research findings through knowledge transfer and educational activities.

About the Walter J. Somers Foundation

The Somers family established the Walter J. Somers Foundation in tribute to the founder of the Walter Group. Through different donations, the Foundation pursues the family heritage of commitment to the community and contributes to the prosperity of Quebec society, firstly by helping to improve its productivity but also by supporting excellence in youth education.

For more information on the Centre, visit www.hec.ca/cpp or write us at info.cpp@hec.ca

AUTHORS' NOTES

Since 2009, the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP) has published an annual report on the state of Quebec's economy. In the 2025 edition, the second part of the publication looked at the issue of domestic trade from a productivity perspective. The following report presents this analysis in full.

For more information: www.cpp.hec.ca/bilan

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INTRODUCTION

In a report published in the fall of 2022¹, the CPP sounded the alarm on the state of competition in Canada. The conclusion was clear: Canada had to reactivate the vital mechanisms of competition if it was to maintain its standard of living and quality of life.

By remaining rooted in a logic dedicated to protecting the interests of Canadian companies, institutions governing competition in Canada were unable to stimulate the competitiveness of Canadian businesses when market integration accelerated in the early 2000s. As a result, companies have continued to develop in an institutional environment where the growth of company size and the protection of jobs have taken precedence over competitive forces, with the well-known consequences of low investment, less research and development (R&D) and a low propensity to innovate – behaviours that limit the productivity gains they generate, and ultimately tend to slow the growth of the Canadian economy.

Today, the consequences of government inaction are more visible than ever with the resurgence of American protectionism. Having failed to correct the course **fifteen years ago when the main indicators were turning red, entire sectors of the Canadian economy are now highly exposed to American tariff threats, and with good reason. The scale of the country's structural productivity deficit is now limiting the ability of Canadian companies to develop new markets, both internationally and within the country itself.**

Short of solutions, the various levels of government have made the abolition of interprovincial trade barriers one of their priorities for action to counter the U.S. tariffs. Long considered harmful but with no major impact on the performance of the Canadian economy, the barriers are now seen as major obstacles to economic growth. According to the most recent estimates, the barriers would entail an economic burden equivalent to a 25% tariff barrier² or a \$5,100 per capita reduction³ in the country's standard of living.

Widely reported in the media storm that followed the announcement of the U.S. tariffs, these estimates are highly likely to be unrealistic. Even if we were to consider a complete lifting of the country's regulatory barriers, it would be utopian to expect a 6.9% increase in the standard of living.⁴ Basically, the legal barriers that are always in the news – the exceptions to the Canadian Free Trade Agreement (CFTA) – are too specific to have a major impact on wealth creation in this country. And even if we were to tackle the harmonization of provincial regulations – the real issue – the effect on the volume of trade from east to west would remain limited, because the real barriers to interprovincial trade have a structural origin: they stem from the distance separating regional markets, and from the inability of companies to overcome it due to the scale of their structural productivity deficit.

¹ For more details, see Deslauriers, Jonathan, Robert Gagné and Jonathan Paré, [Retard de productivité du Canada: Et si la réponse se trouvait du côté de la concurrence?](#) Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, November 2022

² Alvarez et al. (2019). [Internal Trade in Canada: Case for liberalization](#). IMF Working Paper. WP/19/158

³ Manucha and Tombe (2022). [Liberalizing internal trade through mutual recognition – A legal and economic analysis](#). Macdonald – Laurier Institute

⁴ Authors' calculations based on estimates by Manucha and Tombe (2022), taking into account the standard of living in Canada in 2023.

The evidence is clear: without sufficient productivity gains to boost their competitiveness, Canadian companies will be unable to displace foreign imports in the domestic market, even if all internal trade barriers were lifted. And whatever happens, the size of the Canadian economy will remain insufficient to guarantee the country's long-term economic prosperity. Rather than dithering over a problem that could have been corrected three decades ago through a simple mechanism – mutual recognition – the provinces will have to get to the root of the country's endemic productivity lag to improve the resilience of the domestic market, and thus enable Canadian companies to cross the borders of their local market.

The rest of the text is organized as follows. The first section puts the issue of internal trade barriers into context, by reviewing the main events since the Macdonald Commission's report⁵. We will see that, by taking the conciliatory route rather than relying on the principle of mutual recognition to ensure the free circulation of goods and services despite the lack of harmonization of provincial standards, the provinces have deliberately limited the fluidity of internal trade.

The second section provides an overview of legal barriers to internal trade. Without minimizing the importance of tackling this issue, we will see that their abolition is unlikely to have as great an impact as anticipated, partly because the effects appear to be overestimated given the nature of these barriers, but mainly because the real impediments are structural in origin. As shown in the next section, the main barriers encountered by companies surveyed in Statistics Canada's 2023 Interprovincial trade survey relate to the distance separating regional markets across Canada, and not to a lack of regulatory harmonization. On the basis of these findings, the final section considers the issue of interprovincial trade from the perspective of productivity, the only vector likely to ensure the competitiveness of companies in distant markets, whether domestic or international.

5 Government of Canada (1985). Report of the Royal Commission on the Economic Union and Development Prospects for Canada. Royal Commission on the Economic Union and Development Prospects for Canada, chaired by Donald S. Macdonald.

SETTING THE SCENE: AN UNFINISHED PROJECT

In 1982, the Macdonald Commission was mandated to "inquire into and report upon the long-term economic potential, prospects and challenges facing the Canadian federation and its respective regions, as well as the implications that such prospects and challenges have for Canada's economic and governmental institutions and for the management of Canada's economic affairs"⁶. In fact, "A key component of this Commission's mandate [was] to make recommendations to secure and strengthen the Canadian economic union"⁷ and in this respect, the Commission came to a clear conclusion about barriers to internal trade:

While lost economic output from impediments to free movement and distortions of the common market appears small, private economic actors have indicated that the policies in question create considerable difficulties for them [...] The effect of these distortions – and the need for effective co-ordination of economic policy – are likely to increase as Canadians face greater competition from the outside world. We should create incentives to international competitiveness, and we should facilitate appropriate adjustments. The economic union implies elimination of internal barriers and positive measures to facilitate operation of the market, to overcome market imperfections and to pursue effective stabilization, industrial and social policies⁸.

To achieve such a balance, the commission recommended, among other things, the development of a code of conduct that would define acceptable practices for the "Reduction of barriers to the allocation of capital, labour, goods and services throughout Canada", and in order to "develop the Code of Economic Conduct, monitor the state of the economic union, and explore methods for co-ordinating policies, the First Ministers' Conference should create a Council of Economic Development Ministers"⁹. The importance of increasing the strength and resilience of the domestic market by decompartmentalizing local markets was overshadowed, however, by the need to conclude a free trade agreement with the United States, and it wasn't until the signing of the second free trade agreement that the provinces started the ball rolling.

In 1994, the provinces ratified the Agreement on Internal Trade (AIT), with the objective to "reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services and investments within Canada and to establish an open, efficient and stable domestic market"¹⁰. To achieve this, the provinces commit to the following principles: "Parties will not establish new barriers to internal trade and will facilitate the cross-boundary movement of persons, goods, services and investments within Canada"; they will "treat persons, goods, services and investments equally, irrespective of where they originate in Canada"; they will "reconcile relevant standards and regulatory measures to provide for the free movement of persons, goods, services and investments within Canada"; they will "ensure that their administrative policies operate to provide for the free movement of persons, goods, services and investments within Canada"¹¹. In short, the provinces are committed to conciliation, rather than seeking to create a single market through the principle of mutual recognition.

6 Government of Canada (1985). Report of the Royal Commission on the Economic Union and Development Prospects for Canada. Royal Commission on the Economic Union and Development Prospects for Canada, chaired by Donald S. Macdonald. Volume 1, unnumbered

7 Government of Canada (1985). Report of the Royal Commission on the Economic Union and Development Prospects for Canada. Royal Commission on the Economic Union and Development Prospects for Canada, chaired by Donald S. Macdonald. Volume 2, Part 3, Chapter 9, page 260

8 Government of Canada (1985). Report of the Royal Commission on the Economic Union and Development Prospects for Canada. Royal Commission on the Economic Union and Development Prospects for Canada, chaired by Donald S. Macdonald. Volume 3, Part 6, Chapter 24, page 465

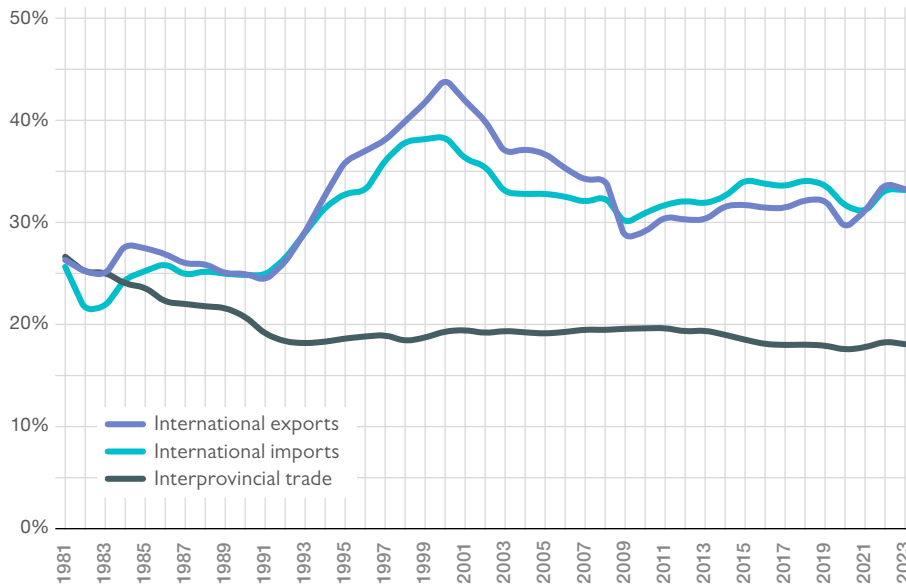
9 Government of Canada (1985). Report of the Royal Commission on the Economic Union and Development Prospects for Canada. Royal Commission on the Economic Union and Development Prospects for Canada, chaired by Donald S. Macdonald. Volume 3, Part 6, Chapter 24, pages 466-467

10 Internal Trade Secretariat (2015). [Agreement on Internal Trade – Consolidated Version](#). Page 3

11 *Ibid.* 10

In retrospect, the AIT had no tangible impact on the volume of interprovincial trade (Chart 1). As domestic demand was reshaped by the signing of the North American Free Trade Agreement (NAFTA), the weight of domestic trade in GDP remained stable long after the AIT came into force, indicating that the agreement did little to stimulate interprovincial trade.

CHART 1
EVOLUTION OF THE SHARE OF INTERNATIONAL AND DOMESTIC TRADE IN CANADIAN GDP, 1981-2023



In 2014, the Government of Canada acknowledged that "Since coming into force, the AIT has achieved limited success"¹². The assessment of failure became clearer in 2016, with the Standing Senate Committee on Banking, Commerce and the Economy, estimating that the "duplication of regulations, as well as inconsistent laws and regulations, across provinces [...] lead to greater costs for businesses when they operate across provincial/territorial borders because efforts must be made to understand and comply with various – and differing – sets of regulations"¹³.

The AIT was replaced by the Canadian Free Trade Agreement (CFTA) in 2017. To accelerate the integration of the internal market, the CFTA is based on a negative approach, applying the rules of the agreement to all activities (including services) except those duly mentioned. Unlike the AIT, only those exceptions specifically spelled out by the provinces may now be subject to limits. However, the principle of mutual recognition that underpins the operation of the European Union is not accepted, and regulatory harmonization now relies on the Regulatory Reconciliation and Cooperation Table (RRCT), the CFTA body in charge of the "regulatory reconciliation and cooperation processes that will help to address barriers to trade that companies may experience when doing business across provincial and territorial borders"¹⁴.

As with the AIT, the actual impact of the CFTA on interprovincial trade has been marginal, if the rise in the weight of domestic trade in GDP is anything to go by (see Chart 1). In the three years following the CFTA's entry into force, the downward trend continued, and it wasn't until local purchasing was stimulated by supply chain breakdowns during the COVID-19 pandemic that the trend was reversed.

Meanwhile, a new consensus on the economic impact of internal trade barriers has emerged. Whereas the Macdonald Commission estimated that internal trade barriers had a negligible impact on the performance of the Canadian economy – a conclusion supported by most of the studies that followed – the analyses carried out since the end of the 2000s conclude, on the contrary, that these barriers weigh down the Canadian economy. And *a priori*, the effect would be major.

¹² Government of Canada (2014). *One Canada, One National Economy – Modernizing Internal Trade in Canada*. Page 1

¹³ Standing Senate Committee on Banking, Commerce and the Economy (2016). [Tear down these walls: dismantling Canada's internal trade barriers](#). Pages 27-28

¹⁴ Regulatory Reconciliation and Cooperation Table (RRCT). [Addressing Regulatory Barriers to Trade in Canada](#)

In the run-up to the signing of the CFTA, the Standing Senate Committee on Banking, Commerce and the Economy noted a wide variability in estimated effects over time, ranging from \$1 billion to \$130 billion – the equivalent of a shock of 0.05% to 7% in terms of GDP. However, in the committee's opinion, "Recent studies on this issue use the best available data and methodologies¹⁵, try to estimate the most likely value of trade in the absence of provincial/territorial barriers, and attempt to account for barriers that cannot be changed, such as the physical barriers represented by the Rocky Mountains or a body of water. Within this context, the committee agrees with recent estimates suggesting that internal trade barriers reduce Canada's gross domestic product by between \$50 billion and \$130 billion"¹⁶.

Although relatively few in number, the most recent studies generally converge towards the upper end of this range. This is notably the case of Manucha and Tombe (2022), who conclude "that Canada's economy could increase by between 4.4 and 7.9 percent over the long-term – a significant gain of between \$110 and \$200 billion per year, equivalent to between \$2,900 and \$5,100 per capita – if internal trade barriers are eliminated by mutual recognition policies"¹⁷. This is also the case for Alvarez *et al.* (2019)¹⁸, who associate non-geographic barriers with the equivalent of a 21% tariff barrier across Canada.

Now the subject of broad consensus, these estimates nonetheless seem excessive. For even if we were to tackle the harmonization of provincial regulations – the real challenge – it would be utopian to envisage a 6.9% rise in the country's standard of living over the long term.¹⁹ This is partly because the very nature of the barriers in question is unlikely to produce such effects, but mainly because the real barriers to interprovincial trade are structural in origin.

THE BEST DATA AND METHODS AVAILABLE

The convergence of results from recent studies on the economic impact of interprovincial trade barriers is not in itself surprising, since most of them are based on the Head-Ries (H-R) index.

Developed by Keith Head and John Ries for their article "Increasing Returns Versus National Product Differentiation as an Explanation for the Pattern of U.S.-Canada Trade" (2001), the H-R Index is calculated by comparing the share spending allocated to imports with the share allocated to locally produced goods, and assumes that in a frictionless market, spending on imports and local goods would be similar across regions. Under this assumption, differences between local and inter-provincial spending would be indicative of the presence of trade barriers, and would therefore allow us to estimate the cost of trade barriers.

While this is an innovative approach, it is nonetheless based on simplifying assumptions, notably with regard to the homogeneity of demand between provinces, a uniform sensitivity of trade flows, an omission of factors such as cultural preferences, and the exclusive attribution of variation to trade barriers, whereas they implicitly derive from the effect of distance.

Aware of the challenge, Alvarez *et al.* (2019) and Manucha and Tombe (2022) have sought to limit the weight of structural barriers in their assessments by regressing the Head-Ries index on an aggregate measure of distance between provinces. While representing a major methodological advance, the approach remains highly theoretical, and relies on patchy data since trade flows are evaluated at the industry level and not by product/service. In other words, it is assumed that production in a given industry is perfectly comparable between provinces.

¹⁵ See box

¹⁶ Standing Senate Committee on Banking, Commerce and the Economy (2016). [Tear down these walls: dismantling Canada's internal trade barriers](#). Page 3

¹⁷ Manucha et Tombe (2022). [Liberalizing internal trade through mutual recognition – A legal and economic analysis](#). Macdonald – Laurier Institute. Page 5

¹⁸ *Ibid.* 2

¹⁹ Authors' calculations based on estimates by Manucha and Tombe (2022), taking into account the standard of living in Canada in 2023.

LEGAL BARRIERS TO INTERPROVINCIAL TRADE

Legal barriers to interprovincial trade take two forms. On the surface, we find the exceptions to the CFTA, amendments decreed unilaterally by a province in order to maintain its control over a given sector. It is these barriers that are most often in the news, partly because they are the direct result of a government's desire to control the circulation of the goods and services concerned, but mainly because they are easily identifiable.

However, the real issue lies beneath the surface, where we find regulatory barriers, tacit obstacles that result from shortcomings in the harmonization of regulations between countries, and which insidiously limit the fluidity of internal trade.

EXCEPTIONS TO THE CFTA

Across Canada, Quebec is the province with the most exceptions to the CFTA (*Table 1, next page*), placing it at the bottom of the rankings compiled by the Canadian Federation of Independent Business²⁰ and the Montreal Economic Institute.²¹ According to the latter, the impact of these barriers is considerable:

When the [CFTA] agreement was signed, Quebec was the province that had asked for the most exemptions to internal free trade, with a total of 35 measures. Today, Quebec has 36 exceptions to the accord, following the addition last year of measures limiting trade in cannabis. These exceptions affect areas as broad as the transport and alcohol sectors, and as narrow as race horses. While Quebec has added exemptions, Alberta went from 27 exceptions in 2017 to just eight today. A recent National Bank report estimated that these restrictions were equivalent to imposing an average tariff of 21 per cent on the goods and services targeted by Canadian provinces. For Quebec specifically, these restrictions amount to a tariff of 25 per cent.²²

The effect of these barriers is visibly disproportionate when one considers their nature. Of the 36 exceptions declared by Quebec, 7 relate to future issues²³ in the agriculture, fisheries/aquaculture, forestry, energy and cannabis sectors, and are in fact not effective (*Table 1*). However, Quebec reserves the right to intervene at a later date in these industries, which together generated 2.3% of the province's GDP in 2019, if we eliminate the exceptions related to Hydro-Québec, a natural monopoly in the truest sense of the word, which by definition operates in a non-competitive environment. Furthermore, 10 of the 36 exceptions declared by Quebec relate to government and Hydro-Québec supply contracts (*Table 2, next page*). Through these exceptions, the government reserves the right to restrict calls for tender related to its construction, engineering and transportation projects. Government gross fixed capital formation in Quebec – the subject of these exceptions – represented 4.5% of the province's GDP in 2023.

20 CFIB (2024). *The State of Internal Trade: Canada's Interprovincial Cooperation Report Card – 2024 Edition*

21 MEI (2023). *Internal Trade Provincial Leadership Index – 2023 Edition*. Economic Note. Regulation Series

22 MEI (2025). [Interprovincial trade: Quebec has lost ground since 2017](#). Media release

23 CFTA. [Exceptions for Future Measures](#)

TABLE I
EXCEPTIONS TO QUEBEC'S CFTA WITH REGARD TO FUTURE MEASURES

The information in Tables I and 2 are quotations from the Canadian Free Trade Agreement.
Source: Canadian Free Trade Agreement. Consolidated Version. April 17, 2025

	SECTOR	DESCRIPTION
1	Agriculture, fisheries, aquaculture	Québec reserves the right to adopt or maintain any measure respected to the production, transfer of possession or ownership, processing, and collective marketing of aquaculture, marine, and fish products. Québec also reserves the right to adopt or maintain any measure in connection with the issuance of permits under the Food Products Act.
2	Forestry	Québec reserves the right to adopt or maintain any measure respected to forestry. This includes: development, access, exploitation, marketing or processing of forest resources, and the products derived from (including biomass and non-timber); as well as transport and supply of wood-processing plants, etc. These measures also include, imposing public interest tests or taking into account socio-economic factors.
3	Energy – Electricity	Québec reserves the right to adopt or maintain any measure related to electricity. This includes: production, fixing and modification of rates and conditions, transmission, purchase, supply, distribution, procurement, exportation, importation, sales, investments, transport, energy efficiency and maintenance of electrical facilities, etc. Québec reserves the right to adopt or maintain any measure related to the transfer and the granting of lands in the domain of the State and of movable and immovable property. Québec reserves the right to adopt or maintain any measure related to all powers and sources of energy from which it is possible to produce electricity. These measures also include taking into account economic, social or environmental factors. For greater certainty, no obligation listed in Section 2 of Annex 309 (Open and Non-Discriminatory Provision of Electricity Transmission Service) applies to Québec or to any Québec measure related to electricity. Also for greater certainty, regarding electricity transmission services or the trade in electricity transmission services, Article 316 (Non-Discrimination) and Article 317 (Commercial Considerations) of Part D (Monopolies and Government Enterprises – Commercial Activity) of this Agreement do not apply to any measure adopted or maintained by a Québec monopoly or a Québec government enterprise given the non-application of Section 2 of Annex 309 (Open and Non-Discriminatory Provision of Electricity Transmission Service) to Québec or to any Québec measure related to electricity.
4	Energy – Oil and gas	Québec reserves the right to adopt or maintain any measure related to the distribution of oil and gas, to transport services via pipeline, and to oil and gas development. These include, amongst others, development and implementation of benefits plans.
5	Fisheries	Québec reserves the right to implement all powers delegated by federal laws and regulations on fisheries.
6	Social services	Québec reserves the right to adopt or maintain any measure related to the supply of social services not otherwise covered by Article 805 (Social Services).
7	Cannabis	Quebec reserves the right to adopt or maintain any measure related to cannabis and cannabis accessories. This includes: the importation, production, supply, distribution, transport, storage, marketing (including sale, packaging, labeling, advertising and promotion), services connected to cannabis purchase, possession or use of cannabis or cannabis accessories. Quebec is implementing these measures and carrying out these activities, in particular through its provincial monopoly, the Société québécoise du cannabis. With regard to the application of Article 201 (non-discrimination), if another Party has: reserved the right to derogate from the obligation set forth under article 201 (Non Discrimination); and exercised its right to discriminate against and to the detriment of Québec cannabis products, accessories, services or investments; and consultations with that Party have failed to resolve the matter, Québec reserves the right to provide treatment to that Party's cannabis products, accessories, services or investors that is no less favourable than the treatment provided by that other Party to Québec's products, accessories, services or investors until such time as a mutually satisfactory resolution of the matter is achieved. This exception also applies with respect to protecting Québec's ability to reserve, in International Trade Agreements, its right to offer better treatment to Canadian cannabis products, accessories, services or investments. Without limiting the generality of the foregoing, it is understood that the exception to article 301 (Right of Entry and Exit) does not apply to the transport of cannabis carried out by a cannabis producer himself, including the transportation of cannabis in transit in Quebec or for inter-company delivery, in compliance with the applicable standards and conditions.

TABLE 2
EXCEPTIONS TO QUEBEC'S CFTA REGARDING GOVERNMENT CONTRACTS

	SECTOR	DESCRIPTION
1	Excluded entities	The National Assembly of Quebec and its Officers are not covered by the CFTA's procurement exceptions.
2	Hydro-Québec	The procurement of the following goods by Hydro-Québec (identified in accordance with the Harmonized System Codes (HS)): HS 7308.20; HS 8406; HS 8410; HS 8426; HS 8504; HS 8535; HS 8536; HS 8537; HS 8544; HS 8705.10; HS 8705.20; HS 8705.90; HS 8707; HS 8708; HS 8716.39; HS 8716.40
3	Hydro-Québec	The procurement of the following services by Hydro-Québec (identified in accordance with the United Nations Provisional Central Products Classification (CPC)): 84 – Computer and related services; 86724 – Engineering design services for the construction of civil engineering works; 86729 – Other engineering services.
4	Government	The procurement of goods purchased for representational or promotional purposes, or for services or construction services purchased for representational or promotional purposes outside the province.
5	Government	The procurement of services contracts, excluding construction services contracts, which grant to a supplier the right to provide and exploit a service to the public as complete or partial consideration for the delivery of a service under a procurement contract.
6	Government	The procurement of transportation services provided by local-owned trucks for hauling aggregate on highway construction projects.
7	Government	The procurement of integrated engineering services for transportation infrastructure turnkey projects.
8	Government	The procurement of advertising and public relations services.
9	Government	Quebec may require that final assembly takes place in Canada when purchasing mass transit vehicles.
10	Hydro-Québec	Quebec reserves the right to adopt or maintain any measure favouring local outsourcing in the case of construction services contracts awarded by Hydro-Québec. For greater certainty, such a measure would not be a condition for participation or qualification of suppliers.

In all, 19 exceptions directly target trade with other provinces (*Table 3*). Of these, several have no practical impact on economic growth. These include exceptions for ferries, funeral services, travel agencies, explosives, wildlife, racehorses and cooperatives.²⁴ It is also assumed that the actual impact of several exceptions is likely to be marginal, given their nature. This is notably the case for exceptions related to the Act respecting the collection of certain debts, the Regulation respecting savings products and the Real Estate Brokerage Act, which require operators to have an establishment in Quebec to carry out their functions. This is also the case for the exception relating to the Act Respecting Liquor Permits, which stipulates that "Obtaining a permit is mandatory

to conduct any commercial activities pertaining to alcoholic beverages, including production and sale", or the exception relating to the Act Respecting The Acquisition Of Farm Land By Non-Residents, which governs the purchase of land by non-residents. Ultimately, only a limited number of exceptions explicitly hinder economic activity, with limited effective scope considering their specificity. This is the case with the exception concerning the Sustainable Forest Development Act, which requires wood harvested on public land to be processed in Quebec, the exception concerning the Marine Products Processing Act, which allows the government to impose minimum processing standards, and the exception protecting the Société des alcools monopoly.

TABLE 3
EXCEPTIONS TO QUEBEC'S CFTA IN RELATION TO EXISTING MEASURES

The information in Table 3 are quotations from the Canadian Free Trade Agreement.
Source: Canadian Free Trade Agreement. Consolidated Version. April 17, 2025

	SECTOR	DESCRIPTION
1	Real estate services	A broker must have an establishment in Québec. In the case of a broker who acts on behalf of an agency, the broker's establishment is the agency's establishment. An agency must have an establishment in Québec.
2	Road transportation	The Minister of Transport determines the conditions that a heavy-vehicle operator located outside of Québec but in the territory of a Party to the Canadian Free Trade Agreement must meet to register in the bulk trucking register. The total number of registration allowed is not limited for operators outside of Québec but they cannot be transferred. Participation in the performance of a road construction, repair or maintenance work contract awarded by the Minister of Transport, is limited to small bulk trucking enterprises that subscribe to the brokerage service of an association holding a brokerage permit, for a minimum of 50 per cent of the transportation required that has to be offered to the brokerage permit holder. Bulk trucking enterprises that are not registered will only have access to the remaining 50 per cent of the transportation needed if the brokerage permit holder accepts the offer to transport 50 per cent of the transportation required. To obtain a brokerage permit, a non-profit legal person or a cooperative shall demonstrate that it represents at least 35 per cent of the operators of heavy-vehicle that are registered in the bulk trucking register and that have its principal establishment in the zone for which the permit is applied for. An operator shall subscribe for brokerage services in the brokerage zone where he has his or her principal establishment or in the zone determined by regulation.
3	Maritime transport	No person may be a member of the board of directors unless he is domiciled in Québec. Permit is issued to a person domiciled in Québec or having a compliant institution in Québec.
4	Horse racing	Only a Québec race horse, as defined in the Rules respecting the breeding of Québec Standardbred race horses, can be entitled to a privilege or advantage A person who applies for registration of a Standardbred stallion with the <i>Régie des alcools, des courses et des jeux</i> must be a resident of Québec for at least 183 days.
5	All sectors	Direct or indirect acquisition of farm land by non-residents of Québec must be authorized by the <i>Commission de protection du territoire agricole du Québec</i> . When it receives an application for authorization by non-residents of Québec, the Commission takes into consideration the possible uses of the land for agricultural purposes and the economic consequences thereof. No person may, in a designated agricultural region, use a lot for any purpose other than agriculture without the authorization of the Commission, which takes into consideration specific socio-economics factors when rendering a decision. Québec residents are given priority in the purchase or lease of land in the domain of the State.
6	Funeral, cremation and undertaking services	A natural person seeking a permit to act as a funeral director, on his or her behalf or for a legal person, a partnership or an association having its head office in Québec, must have resided in Québec for at least 12 months preceding the request.
7	All sectors	The Cooperatives Act places constraints on the issue, transfer and ownership of shares. Membership of the cooperative is subject to the member actually using the services offered by the cooperative and to the cooperative's ability to provide him with them. The Cooperatives Act also stipulates that every member of the cooperative or representative of a legal person or partnership that is a member may be a director. The head office of a cooperative, a federation or a confederation must at all times be located in Québec. A cooperative, a federation or a confederation must carry on with its members a proportion of its total business according to a percentage determined by government regulation. In the case of a solidarity cooperative, this proportion is calculated separately for the members who are users of the cooperative and for those who are workers of the cooperative.

24 According to an article in *Les Affaires* entitled [Le Québec veut éliminer des barrières commerciales interprovinciales](#), the Quebec government intends to abolish most of these.

EXCEPTIONS TO QUEBEC'S CFTA IN RELATION TO EXISTING MEASURES (following)

	SECTOR	DESCRIPTION
8	Fisheries	The Minister may, by regulation, prescribe the minimum processing standards with which an operator must comply for the preparation or canning of a marine product. The standards may vary depending on the marine product.
9	Wildlife, hunting, fisheries, trapping	The Act respecting the conservation and development of wildlife, and any regulation made thereunder, may provide differing treatments for non-residents of Quebec. A "resident" means a person domiciled in Québec and having resided there for at least 183 days during the year preceding his fishing, hunting or trapping activities or his application for a licence or a certificate.
10	Forestry	All timber harvested in the domain of the State, including biomass volumes, must be completely processed in Québec. However, the Government may, on the conditions it determines, authorize the shipment outside Québec of incompletely processed timber from the domain of the State if it appears to be contrary to the public interest to do otherwise. The Minister may take measures for the development of lands or forest resources in the domain of the State that are under his or her authority in order to encourage regional development or implement any other related governmental policy.
11	Alcoholic beverages	Québec regulates and authorizes the importation, distribution, supply, transport, sale, trade, and marketing of alcoholic beverages and conducts these activities, including through its provincial monopoly, la Société des alcools du Québec.
12	Alcoholic beverages	Obtaining a permit is mandatory to conduct any commercial activities pertaining to alcoholic beverages, including production and sale. For some categories of alcoholic beverages, marketing is carried out by holders of a grocery permit. Holders of a grocery permit must only buy authorized alcoholic beverages including from an authorized distributor or from authorized holder of production permit. Québec may require that products sold by holders of a grocery permit are bottled in Québec. Without restricting the generality of the foregoing, Québec maintains any measure with respect to: Limiting to certain places, the sale and the distribution of some categories of alcoholic beverages; for example, in farmer's markets or on production sites; Limiting the sales of alcoholic beverages produced or bottled by holders of a distiller's permit to la Société des alcools du Québec, unless they ship such products outside Québec. No person may be a member of the board of directors unless he or she is domiciled in Québec.
13	Chemical products – Explosives	Quebec determines conditions for use, sale, transport, delivery, preservation and destruction of explosives.
14	Social services	Québec reserves the right to maintain a measure with respect to the provision of social services not otherwise covered by Article 805 (Social Services).
15	Energy – Electricity	Québec (including through the <i>Régie de l'énergie</i> and <i>Hydro-Québec</i>) may fix, determine, and modify rates, tariffs, prices, and other conditions relating to the production, purchase, transmission, supply, distribution, and sale of electric power. Without limiting the generality of the foregoing, such measures may involve discretionary decisions based on various factors, the imposition of performance requirements or discrimination in favour of residents of Québec or entities established under the laws of Canada or a province or territory thereof and having a place of business or substantive business operations within Québec.
16	Energy – Electricity	Hydro-Québec, municipal electric power systems, the <i>Coopérative régionale d'électricité de Saint-Jean-Baptiste de Rouville</i> , and private electric power systems are holders of exclusive electric power distribution rights. The exportation of electric power from Québec is prohibited. The Gouvernement du Québec may nevertheless authorize, by order, on the conditions and in the cases it determines, any contract for the exportation of electric power from Québec. Contracts relating to the exportation of electric power by Hydro-Québec, including wheeling under a transportation service agreement, must be submitted to the Government for authorization in the cases determined by the Government and are subject to the conditions the Government may then determine.
17	Travel agencies	A natural person applying for a travel agent licence on his or her own account must establish and maintain a principal establishment in Québec. The association, partnership or person on whose behalf the licence is applied for must establish and maintain a principal establishment in Québec. A principal establishment is an establishment in which the operations of the licensee are principally performed.
18	All sectors*	Québec requires that applicants and holders of a permit or a certificate of compliance must have an establishment in its territory in order to allow supervisory authorities to monitor the activities of licensees and to exercise their powers of sanction. Such establishment may need to be situated in an immovable or part of an immovable in which the holder carries on business.
19	Securities	Residency requirements may be imposed in relation to the acquisition, sale or other disposition of saving products pursuant to Section II of Chapter VII of the Financial administration Act.

*This exception concerns the Act Respecting the Collection of Certain Debts, the Consumer Protection Act, the Civil Protection Act and the Private Security Act.

The logic remains the same when analyzing the CFTA's declared exceptions to labor mobility: while still aberrant, the exceptions are too specific and insufficient in number to have a major impact on economic growth (Table 4). Beyond the outdated examples of dental care professions, the only notable exception is for lawyers, and is justified by the scope and diversity of provincial laws and regulations.

While the exceptions are more numerous in Quebec, the general observation is the same when the exercise is repeated for the other Canadian provinces. In the vast majority of cases, the exceptions declared are too specific to have a marked effect on inter-provincial trade, and consequently on economic growth in the country. That said, it would be unwise to downplay the impact of legal barriers on the fluidity of internal trade. And for good reason: the real issue is the lack of regulatory harmonization, not the exceptions to the CFTA.

TABLE 4
OCCUPATIONS EXCLUDED FROM THE CFTA'S LABOR MOBILITY CHAPTER, BY PROVINCE

BRITISH COLUMBIA	ALBERTA	SASKATCHEWAN	MANITOBA	ONTARIO	QUEBEC	NEW BRUNSWICK	NEWFOUNDLAND AND LABRADOR	PRINCE EDWARD ISLAND	NOVA SCOTIA
Lawyers	Licensed practical nurses	Lawyers	Licensed practical nurses	Lawyers	Lawyers	Lawyers	Lawyers	Lawyers	Lawyers
	Dental hygienists	Dental hygienists		Licensed practical nurses	Primary Care Paramedics	Social workers	Licensed practical nurses	Social workers	Licensed practical nurses
	Paramedics	Paramedics		Dental hygienists	Advanced Care Paramedics		Dental hygienists		Dental hygienists
	Safety code officers			Social workers	Denturists		Social workers		Social workers
	Water well drillers			Drinking water system operators					Psychologists
	Dental hygienists – anesthetics								
	Nurse practitioners								
	Podiatrists								
	Medical Radiation Technologists								

* Click on a profession to consult its exemption notice

REGULATORY BARRIERS

In the absence of a coordinating mechanism, the various regulatory bodies that oversee the production of goods and services in the country have fostered the emergence of a patchwork of regulations that differentiate provincial standards at the margins, or result in the overlap of provincial and federal regulations. Without necessarily affecting economic activity to the extent claimed, these barriers limit the fluidity of domestic trade and increase the transaction costs of many goods traded in the country, either through their direct effect on selling prices, or by insidiously limiting local competition, as certain goods cannot be traded directly.

Although exceptional, the example of the City of Lloydminster gives a full measure of how absurd these barriers can be. In this unusual case, overlapping provincial and federal regulations hindered the sale of food within a company that had outlets in both parts of the city.²⁵

Lloydminster is a unique city in Canada that is located partly in Alberta and partly in Saskatchewan, and both provinces have agreed to treat the city as a single municipality. To allow Lloydminster to operate as one city and alleviate duplicative provincial administration, Alberta and Saskatchewan established the Lloydminster Charter in 1958, which provides the legal framework for the operation of the city. The Lloydminster Charter is codified in legislation in both provinces and provides for the application of specific Alberta and Saskatchewan laws throughout Lloydminster. For instance, the Charter provides the authority for the Saskatchewan Health Authority to carry out all food inspection and regulatory oversight activities for Lloydminster, regardless of which side of the border a food business is located. Thus, regarding the current provincial inspection oversight of food, Lloydminster is treated like any other city situated entirely within Saskatchewan.

Current federal regulatory requirements for food do not recognize the unique situation of Lloydminster. Because Lloydminster is divided by a provincial boundary, a food commodity that crosses that boundary within Lloydminster is considered to be traded interprovincially. As a consequence, that food commodity and the persons or businesses conducting regulated activities in respect of it are subject to the federal interprovincial trade requirements of the Safe Food for Canadians Act (SFCA) and the Safe Food for Canadians Regulations (SFCR). In the case of food, these include requirements for licensing, preventive controls and other requirements such as traceability, packaging, and federal compositional standards.²⁶

25 Radio-Canada (2023). [Un projet pilote facilite le commerce interprovincial à Lloydminster](#).

26 Government of Canada, (2024). [Canada Gazette, Part I, Volume 158, Number 6: Regulations Amending the Safe Food for Canadians Regulations \(City of Lloydminster\)](#).

27 CAPI (2022). [Analysis of Regulatory and Non-Regulatory Barriers to Interprovincial Red Meat Trade in Canada](#)

28 Government of Canada. [Report of Canada's Economic Strategy Tables: Agri-food](#)

This striking example is by no means an exception. While these obstacles are difficult to count, given their singularity, an overview of the analyses carried out by various industry associations, committees and pressure groups provides a glimpse of the tip of this iceberg.

The analysis of regulatory and non-regulatory barriers to trade in red meat in Canada produced by the Canadian Agri-Food Policy Institute (CAPI)²⁷ explains, for example, that:

Meat slaughtering and processing regulations vary across the country. Federally-licensed establishments are allowed to trade interprovincially and internationally. Those with provincial licenses can only sell their products within provincial borders. [...] The absence of policies to ensure that provincial standards meet federal standards restricts access to national and international markets for provincially inspected establishments.

In 2018, the Report of Canada's Economic Strategy Tables: Agri-food²⁸ mentioned that:

Food handlers, distributors and processors are prohibited from shipping both fresh and processed fruits and vegetables across provincial boundaries if they do not meet the prescribed rules on packaging, labelling and grading under the Canadian Agricultural Products Act. Allowing goods to be shipped hundreds of kilometres within a province without having to meet these requirements while barring a food processing plant from sourcing the same products from a farm one kilometre away if it happens to be on the other side of a provincial border is a regulatory inconsistency that stifles productivity and efficiency.

In *Booze, Cigarettes, and Constitutional Dust-Ups: Canada's Quest for Interprovincial Free Trade*, Ryan Manucha illustrates the incongruity of regulatory overlap in certain sectors. For example, takes the case of Lufa Farms, which was denied organic certification in Quebec because it uses hydroponic technology that is considered organic elsewhere in Canada:

Canadian regulators attempted to achieve uniformity on the organic status of soil-free produce. Ultimately, a working group of the RCT process arrived at agreement in 2019 to extend the availability of the "Canada Organic" label to hydroponically produced crops. However, the Quebec agency in charge of the provincial organic designation did not embrace the RCT's decision. It refused to adopt the federal approach for its own provincial organic labelling scheme.²⁹

As a result of Quebec's position, two regimes apply to products sold in the province:

If the product comes from Quebec, the certification body must be accredited by the Conseil des appellations réservées et des termes valorisants (CARTV). You'll find a list of these organizations on the Accredited certification bodies for organic production in Quebec page. If the product comes from outside Quebec, the certification body must be accredited by the Canadian Food Inspection Agency (CFIA).³⁰

More generally, a large proportion of the country's trade in goods is indirectly affected by the lack of regulatory harmonization in the trucking industry. Recognizing the importance of the issue, Canada's ministers responsible for transportation and highway safety mandated a task force "to study interprovincial/territorial truck-related regulations and standards across the country".³¹

Progress has been limited, however, and only a minority of the 34 regulatory issues identified in 2018 (*Table 5, next page*) have been resolved. In particular, the provinces have reached agreement on the issue of single wide-band tires, but most of the negotiations relating to vehicle weight and size have been deferred from one work plan to another, and no timetable has been defined.³² To speed up the harmonization process, a "pilot project to mutually recognize regulatory requirements in the trucking sector"³³ was initiated in the fall of 2024 "to improve the efficient movement of goods — a crucial aspect to Canada's productivity and affordability."³⁴ Three provinces initially refused to participate — notably Quebec — which inevitably undermined the process' potential for success. Quebec, however, reversed its position under the threat of U.S. tariffs.

29 Manucha, Ryan (2022). *Booze, Cigarettes, and Constitutional Dust-Ups. Canada Quest for Interprovincial Free Trade*. McGill-Queen's University Press

30 Gouvernement du Québec. [Agriculture biologique](#). Free translation

31 Task Force on Trucking Harmonization (2018). [Supporting the Efficient Movement of Trucks across Canada: Suggested approaches by the task force on trucking harmonization](#). Page 1

32 RRCT (2025). [Regulatory Reconciliation and Cooperation Table – 2025 Work Plan](#) (Overview)

33 "Under this new trucking pilot, participating provinces and territories will commit to recognizing each other's regulatory requirements, even where differences exist, such as oversized vehicle signage requirements, to allow trucks and the goods they carry to move across Canada more effectively, without compromising safety and security measures. The pilot, the first of its kind on this scale within Canada, will help governments test and measure what can be achieved through mutual recognition and will help drive future work in other important sectors of the economy, including labour mobility". Source: Government of Canada (2024). [Ministers LeBlanc and Anand announce trucking pilot to improve movement of goods](#). Press release, September 2024

34 *Idem*

TABLE 5

LIST OF DIVERGENT TRUCKING REGULATIONS IDENTIFIED BY THE TRUCKING HARMONIZATION TASK FORCE IN 2018*

ISSUE 1	Lack of harmonization between jurisdictions on legal weights and dimensions
	- Weight limits for tow-trucks vary between jurisdictions - Lack of harmonization in weight allowance for liquid natural gas (LNG) fueled vehicles 18.44 m (60 ft. 6 in.) Semi-trailers are not uniformly accepted across all jurisdictions - Differing weight allowances for self-steer quad semi-trailers depending on tire size - Lack of harmonization for steering axle weight limits for truck tractors - Load-biasing 6 x 2 drivetrain configurations are not uniformly accepted in all jurisdictions - Lack of uniformity with tandem tractor with flat deck trailer dimension regulations and operations with other vehicle dimensions
ISSUE 2	Varying Vehicle Equipment Registration and Requirements/Regulation
	- Vehicle equipment registration requirements and permit durations vary between jurisdictions - Lack of uniformity regarding farm plate rules among provinces - Provinces and territories vary in how they interpret and implement prorated vehicle registration - Lack of uniform adoption of speed limiters across the country
ISSUE 3	Slow adoption of recent MOU amendments across jurisdictions
ISSUE 4	The adoption of National Safety Code Standards vary by jurisdiction, impeding carrier compliance
	- Provinces and territories vary in how they interpret and implement driver medical requirements (NSC Standard 6) - Provinces/territories vary in how they interpret and implement carrier safety ratings/carrier profile/facility audits (NSC Standards 7, 14 & 15) - Provinces/territories vary in how they interpret, implement, and enforce hours of service (NSC Standard 9) - Electronic logging devices (ELDS) should be uniformly mandated across all jurisdictions once mandated by Transport Canada - Differing provincial/territorial regulations regarding the tying and securing of loads (NSC Standard 10) also known as cargo securement - Provinces and territories vary in how they interpret and implement trip inspections regulation (NSC 13)
ISSUE 5	Harmonization of Spring Road Bans/Restrictions: Spring weight restrictions/reduced load periods are adopted and enforced differently across jurisdictions
ISSUE 6	Lack of harmonization in permit processes for oversize/overweight loads across jurisdictions
	- Permitting processes for oversize/overweight loads are inconsistent, complex and slow - Different costs to operate oversize/overweight loads across jurisdictions (e.g., costs for permit and other services)
ISSUE 7	Lack of a designated national oversize/overweight corridor
ISSUE 8	Varying vehicle requirements, weight limits, permit conditions, driver qualifications and training for turnpike double long combination vehicles
	The definition of acceptable long combination vehicles routes is determined by each jurisdiction
ISSUE 9	Weight allowances based on tire size differ
	- Not all jurisdictions accept the use of wide base single (VBS) tires at the same weights as the dual tires they replace - Create a national standard for tire sizes
ISSUE 10	Lack of mutual recognition and cost impacts of varying fuel and sales tax rates across jurisdictions
	- Single trip fuel permit/fuel tax rates vary by province - Varying input (sales) taxes across jurisdictions
ISSUE 11	Inconsistent enforcement and policing of trucking regulations
	- Bills of lading not uniformly adopted and enforced - Better enforcement of emissions tampering
ISSUE 12	Pilot car operations (i.e., enforcement and training) vary across jurisdictions
	- Level of enforcement for pilot cars varies across jurisdictions - Jurisdictions are not consistent when it comes to pilot car operators training requirements
ISSUE 13	Lack of mandatory drug and alcohol testing for commercial truck drivers
ISSUE 14	Lack of standardized mandatory entry level training for commercial vehicle drivers across Canada
ISSUE 15	Lack of a National Safe Rest Areas Strategy

* The information contained in this table is a full reproduction of the issues identified by the Task Force on Trucking Harmonization as well as their description. Source: Task Force on Trucking Harmonization (2018). *Supporting the Efficient Movement of Trucks across Canada: Suggested approaches by the task force on trucking harmonization.*

THE FAILURE OF REGULATORY CONCILIATION

In principle, most regulatory barriers would have been removed if the provinces had agreed on the principle of mutual recognition when signing the CFTA. Instead, they opted for conciliation, and piecemeal negotiations proved slow and dangerously inefficient.

In the seven years of its existence, the RRCT's work has resulted in 12 conciliation agreements³⁵ which mainly concern minor issues that can easily be reconciled: first aid; head, foot and eye protection; hearing protection; personal flotation devices and lifejackets; simplified procedures for the registration of pressure equipment; harmonized energy efficiency regulations for household appliances; uniform markings to ensure the safety of users of waterways regulated by the federal, provincial and territorial governments.

Moreover, the RRCT's work requires an inordinate amount of time in relation to the nature of the issues being conciliated. For example, the RRCT has given itself until December 31, 2026 to harmonize high-visibility safety clothing,³⁶ and until December 31, 2027 to harmonize the certification process for fall protection equipment.³⁷ No timetable has been set for the harmonization of OTC drug regulations.³⁸

If they really wish to resolve the regulatory impasse by creating a true single market, the provinces will have to rely on the principle of mutual recognition, rather than proceeding piecemeal through the RRCT, letting individual provinces impose their vetoes on trivial matters. If this happens, most of the regulatory barriers separating the provinces will fall, with the free movement of goods assured by the recognition that a province's technical standards provide equivalent protection to local standards. In the meantime, intense negotiations will have to get underway to eliminate regulatory barriers in the trucking industry, a major issue given that distance is the main barrier to interprovincial trade, according to Statistics Canada's Canadian Survey on Interprovincial Trade (CSIT).

35 Stakeholders also committed to negotiating six elements of future regulatory cooperation covering construction, technical safety/labor mobility, temporary labor mobility, transportation, and standards and codes. To date, the negotiation process has been completed for four of the six elements: builder's lien – related prompt payment legislation and regulations (construction), energy-using and energy-efficient products (standards and codes), automated and connected vehicle testing, and electronic consignment devices (transportation). RRCT (2025). [Regulatory Reconciliation and Cooperation Table – 2025 Work Plan](#) (Overview)

36 RRCT (2025). [Regulatory Reconciliation and Cooperation Table – 2025 Work Plan](#) (Overview)

37 RRCT (2025). [Regulatory Reconciliation and Cooperation Table – 2025 Work Plan](#) (Overview)

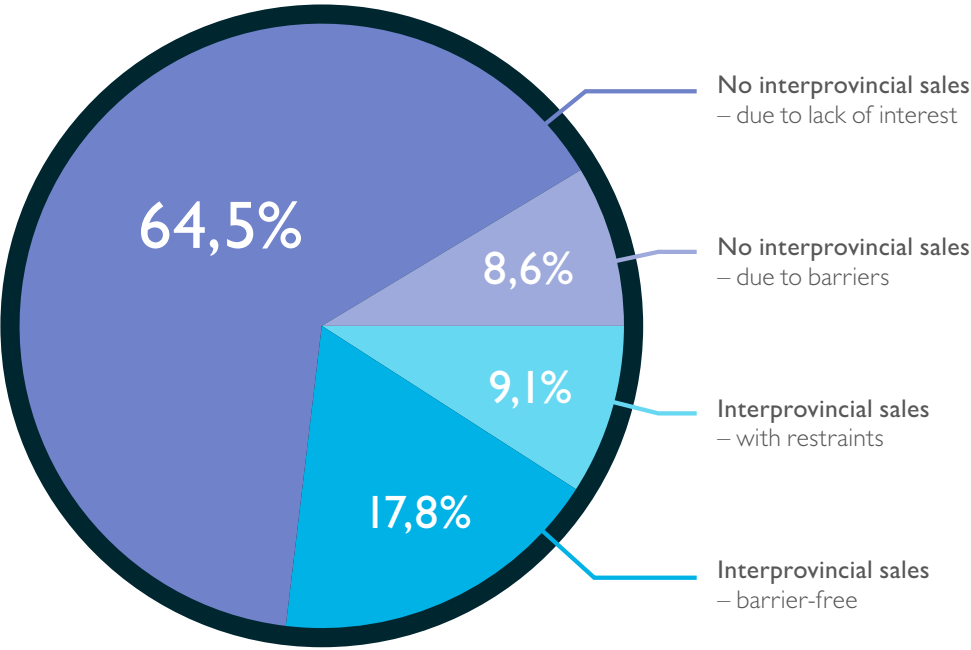
38 When a drug is authorized for sale in Canada, Health Canada decides whether or not it should be sold by prescription. The classification of OTC drugs (decisions on how they can be sold in pharmacies) falls within the jurisdiction of the provinces and territories. Currently, the process by which P/Ts classify OTC drugs varies across the country. This leads to unequal access to consumer health products, and places a heavy regulatory burden on industry. The situation becomes even more complex when a prescription drug already on the market in Canada is converted from prescription to OTC status. The complexity and uncertainty inherent in the transition process discourages companies from making such substitutions, which can prevent innovative products from reaching the OTC market in Canada. RRCT (2025). [Regulatory Reconciliation and Cooperation Table – 2025 Work Plan](#) (Overview)

GEOGRAPHICAL BARRIERS

The 2023 edition of the CSIT offers a better perspective on the reality of interprovincial trade, and the obstacles encountered by the companies that engage in it.

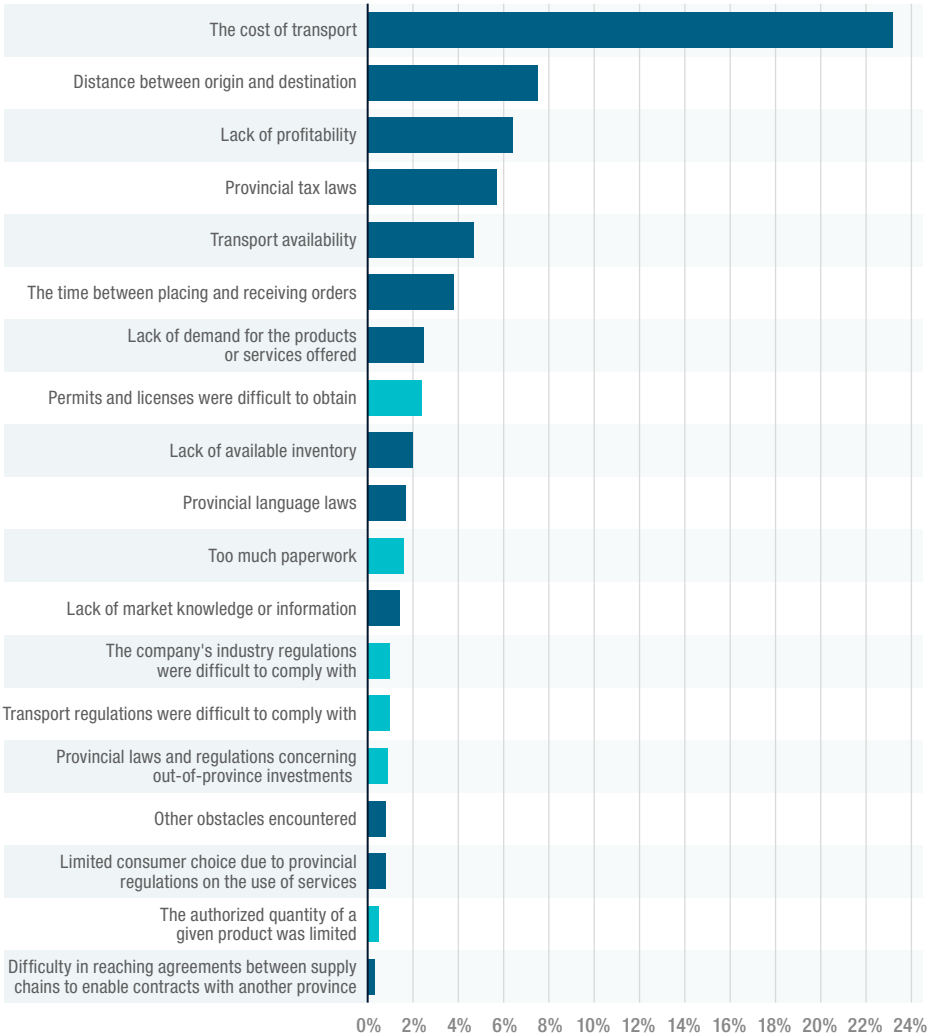
Basically, the CSIT reveals that 64.5% of companies surveyed do not engage in interprovincial trade due to a lack of interest (*Chart 2*). Only 8.6% of companies said they did not engage in interprovincial trade because of the presence of barriers. The survey also revealed that the proportion of companies surveyed that had traded in more than one province without encountering obstacles (17.8%) was almost twice as high as those that had (9.1%).

CHART 2
DISTRIBUTION OF INTERPROVINCIAL TRADE ACTIVITIES OF
CANADIAN COMPANIES – SALES OF GOODS AND SERVICES, 2023



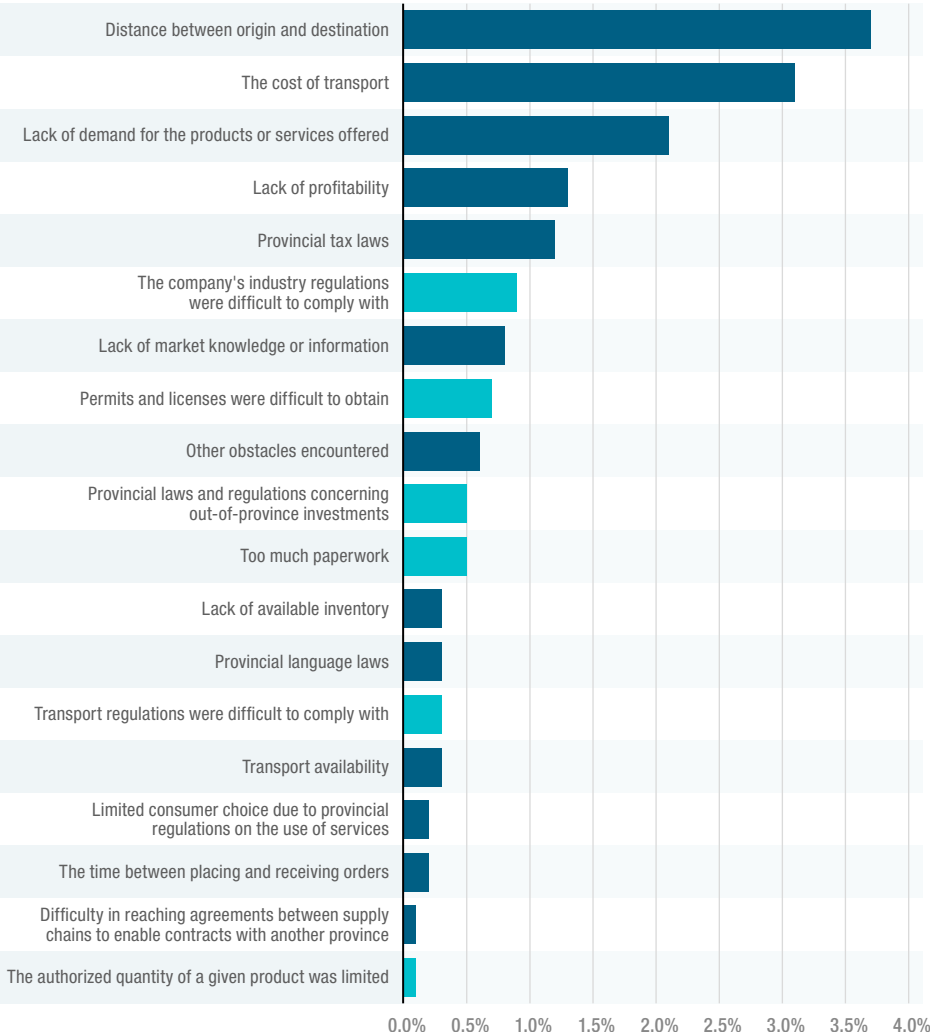
When asked about the nature of the obstacles encountered (Chart 3), the companies surveyed that engaged in interprovincial trade overwhelmingly cited distance-related factors: cost of transport (23.2%), distance between point of origin and destination (7.5%), lack of profitability (6.4%), transport availability (4.7%), time between placing and receiving orders (3.8%). From a strictly legal point of view, provincial tax laws (5.7%) were a more important issue than regulatory obstacles related to obtaining the required permits (2.4%), paperwork (1.6%), local regulations (1.0%), or provincial by-laws (0.9%).

CHART 3
PERCENTAGE OF COMPANIES WITH INTERPROVINCIAL SALES ENCOUNTERING OBSTACLES BY TYPE OF TRADE BARRIER, 2023



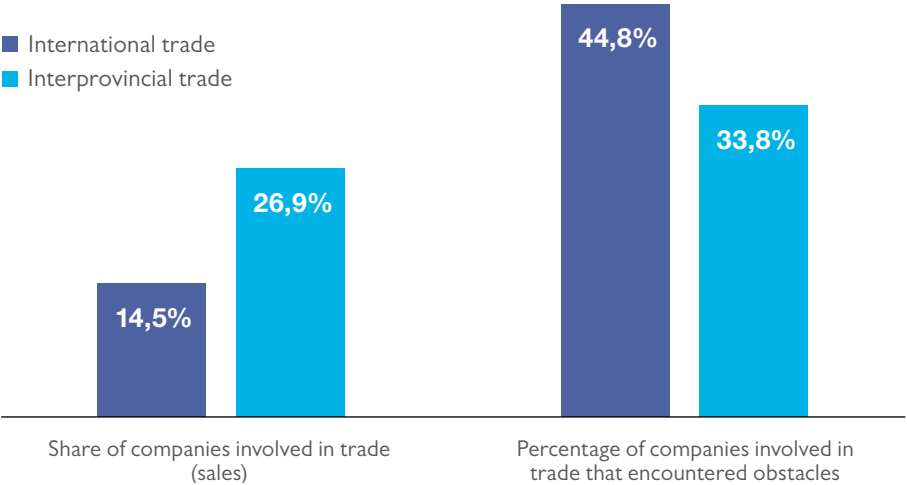
The picture is much the same for companies that did not trade because of barriers (Chart 4). Fewer than 1% of companies surveyed cited regulatory factors, a much smaller proportion than distance-related barriers. In short, legal barriers appear to be a secondary issue from a company's point of view, a finding that clearly runs counter to the importance attached to them.

CHART 4
PERCENTAGE OF COMPANIES WITH NO INTERPROVINCIAL SALES THAT ENCOUNTERED OBSTACLES BY TYPE OF TRADE BARRIER, 2023



The CSIT also tends to relativize the belief that it's "always easier for a Quebec company to export to New York or Florida, as there are still many barriers between the provinces".³⁹ Not only is the proportion of companies surveyed that have done business in another province (26.9%) higher than those that have been active in foreign markets (14.5%), but the presence of barriers was proportionally lower in the domestic market (33.8%) than in foreign markets (44.8%). And while distance is the main obstacle encountered by companies operating internationally (*Chart 6*), administrative issues are clearly more problematic than in the domestic market. According to the CSIT, 10.6% of companies having transacted on foreign markets claimed to have encountered paperwork-related issues, a significantly higher proportion than on the domestic market (1.6%). Similar discrepancies can be observed when it comes to regulatory issues and obtaining permits.

CHART 5
DISTRIBUTION OF COMPANIES ACCORDING TO THEIR BUSINESS ACTIVITIES ON DOMESTIC AND FOREIGN MARKETS, 2023

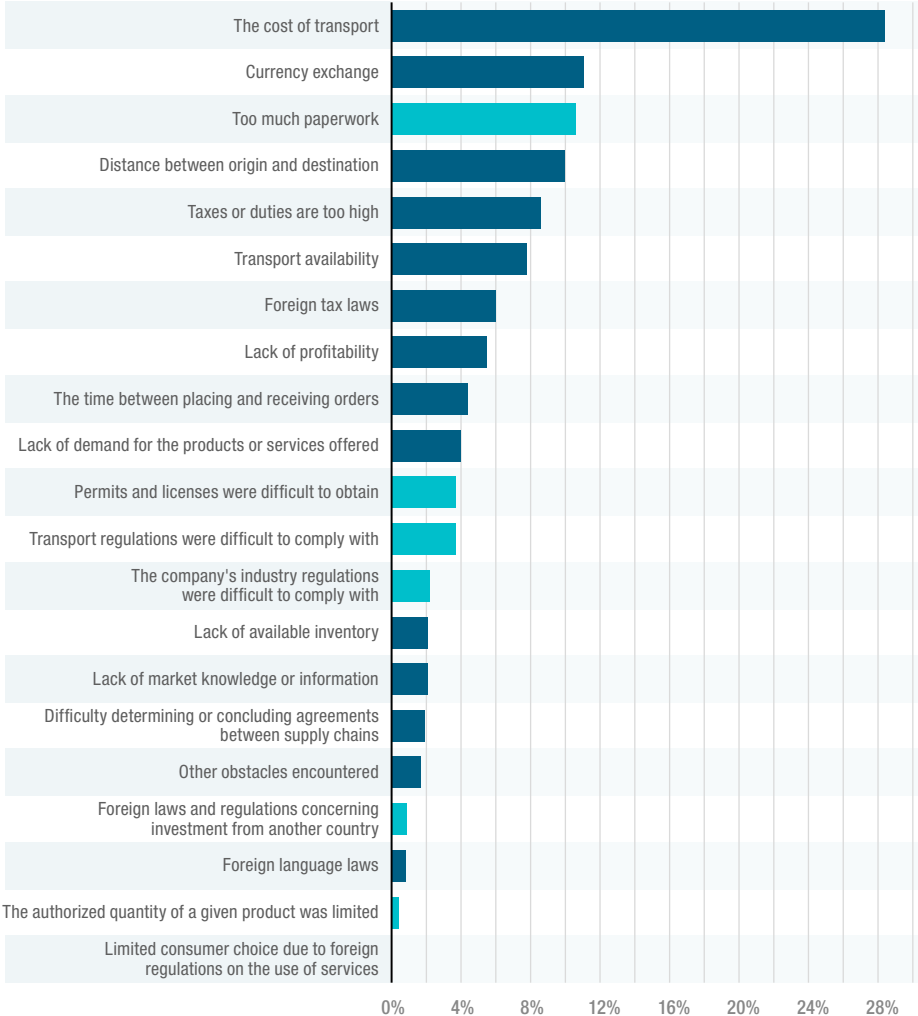


39 [Plus de barrières commerciales entre les provinces qu'avec les États-Unis?](#) Le Soleil, February 2025.
Free translation

40 [Canadian Business Conditions Survey](#). Statistics Canada, Table CANSIM 33-10-0695-01

In closing, it's worth noting that companies that succeed in overcoming domestic trade barriers are often the same ones that export to foreign markets. According to Statistics Canada's Canadian Survey on Business Conditions, 79.2% of companies that traded with another province in 2023 also exported goods internationally.⁴⁰ Such a result suggests that these companies are linked by a common denominator that enables them to overcome the effect of distance, and in this respect, productivity seems to be the only vector likely to ensure the competitiveness of companies in distant markets.

CHART 6
PERCENTAGE OF COMPANIES WITH INTERNATIONAL SALES ENCOUNTERING OBSTRUCTIONS TO TRADE BY TYPE, 2023



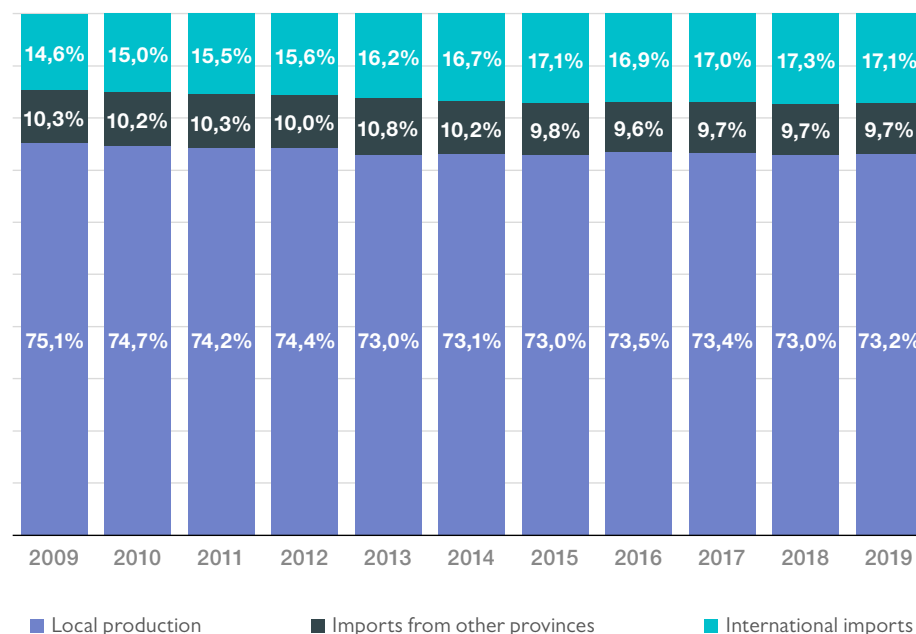
THE ROLE OF PRODUCTIVITY

In a context where most barriers to international and interprovincial trade stem from the distance between markets, it is assumed that the country's structural productivity deficit undermines interprovincial trade flows, just as it undermines the ability of companies to break into foreign markets despite the advantage conferred by the relative weakness of the Canadian dollar. In other words, the explanation behind the low intensity of interprovincial trade would be the same that underlies the relative weakness of Canadian exports: the productivity of the vast majority of companies is too low to enable them to ensure the competitiveness of their production over distance.

Long protected by an exchange rate that boosted their competitiveness, and not naturally exposed to major competitive forces due to the size and fragmentation of the domestic market, Canadian companies did not develop the right investment and innovation reflexes to boost their productivity. As global market integration intensified and the Canadian dollar appreciated, Canadian companies – and goods producers in particular – quickly caught up in terms of competitiveness. And because public policies were not adequately adjusted, the Canadian economy became mired in a major vicious circle. Canadian producers are now struggling to establish themselves on foreign markets, even though the relative weakness of the Canadian dollar is once again making their production more competitive. Worse still, the share of local production and inter-provincial trade in domestic demand⁴¹ has declined in favor of international imports over the last ten years (*Chart 7*), a decline that reflects more the inability of Canadian companies to remain competitive on the domestic market than the historical presence of barriers to internal trade, which are in principle fewer in number than they were in the past.

CHART 7

**BREAKDOWN OF TOTAL CANADIAN DOMESTIC DEMAND
(INTERMEDIATE AND FINAL CONSUMER GOODS AND SERVICES)
BY PRODUCT ORIGIN, 2009-2019**

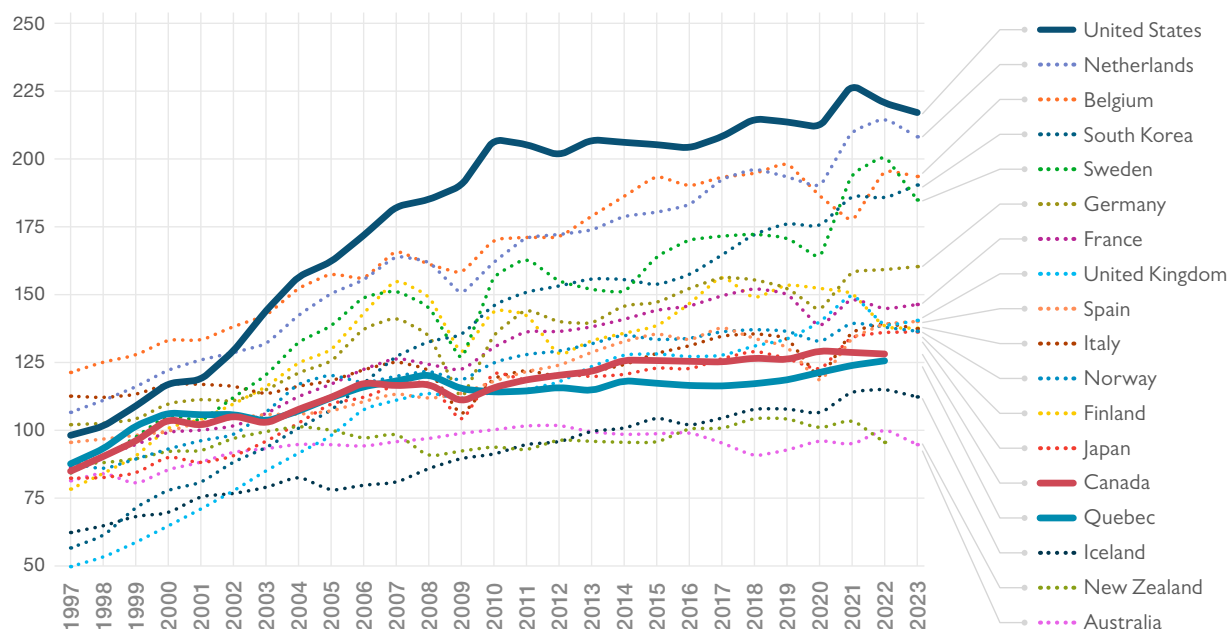


41 According to Statistics Canada, "total supply is equal to total domestic demand. Total supply is defined as the sum of production and inventory withdrawals available for own consumption plus interprovincial and international imports. Total domestic demand is defined as the value of final domestic demand (household consumption expenditures, gross fixed capital formation, inventory additions and final consumption expenditures of government and non-profit institutions serving households plus intermediate domestic demand (inputs into the production process)". Source: Statistics Canada, CANSIM table 386-0003

An analysis of trends in labor productivity per job⁴² in the manufacturing sector (*Chart 8*) – the industry at the heart of trade in goods – immediately reveals that Canada is losing ground. Whereas the country was in the middle of the pack at the end of the 1990s – not far behind the United States – Canada is now relegated to the bottom of the rankings due to the stagnation observed over the last ten years. Today, only New Zealand, Australia and Iceland – geographically isolated economies – have lower productivity levels than Canada. There is also a considerable gap between Canada and the United States, which now tops the rankings with sector productivity 70% higher than here.

CHART 8
REAL PRODUCTIVITY TRENDS IN THE MANUFACTURING SECTOR

In 2020 Canadian \$ per job at purchasing power parity



The impact of relatively low labor productivity on the competitiveness of Canadian production is even more noticeable when the comparison is narrowed to the United States, Canada's main trading partner. In 2023, only a limited number of Canadian industries had higher productivity levels than their American counterparts, accounting for less than 4% of economic activity generated in Canada in the same year (*Chart 9, next page*⁴³). And with the exception of agriculture, forestry, hunting and fishing, a heavily subsidized sector in Canada, Canada's advantage in these industries is marginal compared to the gap observed in favor of the U.S. in the vast majority of the remaining industries.

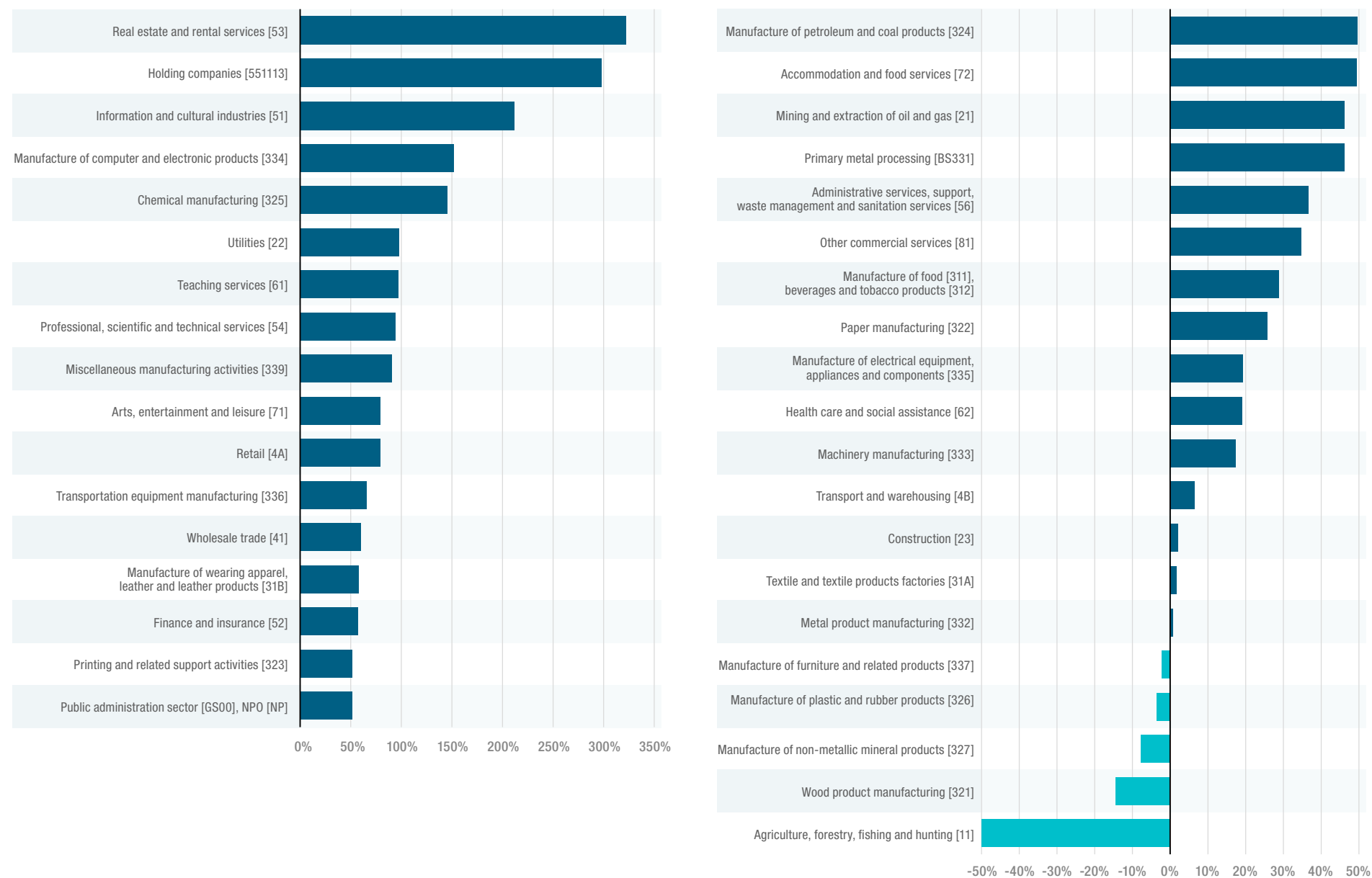
⁴² Comparisons of productivity by industry are limited by the availability of international data, and by differences in industry classification. For this reason, labor productivity is measured per job rather than in hours worked, and the comparison is limited to the manufacturing sector; the concordance between the European (STAN) and North American (NAICS) classifications being virtually perfect at this level.

⁴³ GDP data by industry are presented at market prices in the USA – i.e., prices are measured from the consumer's point of view, and therefore include taxes (net of subsidies) that apply to consumers at the time of purchase of goods and services – whereas these same data are presented at basic prices in Canada (Quebec) – i.e., prices are measured from the business's point of view, and therefore determined before the application of taxes on products. This methodological difference creates a gap in productivity levels to the disadvantage of Canada (Quebec). To reconcile the series, GDP for each industry in Canada and Quebec has been uniformly adjusted by the difference between GDP at market prices and GDP at basic prices for the economy as a whole. This adjustment raises labor productivity for each of the industries in Canada and Quebec, as presented in Statistics Canada's CANSIM 383-0033 table, by around 10%. Although in reality consumption taxes do not apply uniformly to all products, the magnitude of the differences observed in Chart 9 for most industries in terms of productivity (despite the mark-up for Canadian industries) reveals a real efficiency problem in Canada that cannot be attributed to methodological differences. It should be noted that the differences observed at industry level are consistent with the productivity gap observed at the level of the economy as a whole. The only drawback lies in Statistics Canada's exclusion of the GDP associated with owner-occupied dwellings in its industry-by-industry analysis of labour productivity, which has the effect of reducing productivity for Canada and Quebec as a whole, when measured by the sum of productivity multiplied by the employment weight of each industry. Historically, this element was included in NPIs, and should therefore affect only the productivity of the *Public Administration Sector* [GS00], NPIs [NP]. Compared with the results of the first section, the gap in productivity per job is greater than the gap in productivity per hour worked.

CHART 9

REAL PRODUCTIVITY GAP BETWEEN THE UNITED STATES AND CANADA BY NAICS INDUSTRY IN 2023

Productivity measured in 2017 Canadian \$ per job at purchasing power parity



DISCUSSION

Contrary to the prevailing wisdom, this analysis shows that the impact of legal barriers on interprovincial trade is clearly overestimated.

On the one hand, the barriers to the CFTA – which are most often in the news – are clearly too specific to have a significant impact on wealth creation in this country. Looking beyond the outdated examples of the alcohol trade and the regulation of certain professions – notably dental hygienists – it becomes clear that the barriers denounced by the lobby groups who use these estimates to support their claims will have at best a marginal effect on economic growth. By elsewhere, harmonization of provincial regulations is unlikely to have a significant effect on the volume of trade from east to west, partly because few companies are likely to feel that regulatory barriers limit their ability to do business in more than one province, but mainly because the real barriers to internal trade are structural in origin. They stem from the segmentation of the Canadian market and the distance between regional markets, but above all from the inability of most companies to overcome this obstacle, given their poor productivity.

With their productivity lagging far behind that of their American counterparts – both main partners and competitors, given Canada's trade relationship with the USA – Canadian companies are seeing the competitiveness of their production decline as distance increases. This is the main reason why the weight of Canadian exports in GDP is lower today than it was 25 years ago, despite the advantage conferred by the Canadian currency, but also why the provinces will not succeed in stimulating domestic trade by focusing their efforts on legal barriers.

Without substantial productivity gains, efforts to improve the fluidity of domestic trade will be in vain, because Canadian companies will not be able to displace imports in the domestic market. And whatever happens, the size of the Canadian economy will remain insufficient to guarantee the country's long-term economic prosperity. Canadian companies will inevitably have to break into foreign markets to ensure their growth, and for this reason, the provinces need to get to the root of the endemic productivity lag, rather than deliberate on solving a problem that should have been worked out three decades ago by implementing a simple mechanism – mutual recognition.

CONCLUSION

Faced with sufficiently strong competitive pressures, companies are normally encouraged to invest and innovate in order to maintain or increase their market share. Through an accumulation effect, these pressures induce a cycle of economic growth that benefits society as a whole, whether through wage increases associated with productivity gains, the broadening of government tax bases, or more simply through a supply of goods and services that diversifies in price and quality to the benefit of consumers. However, this cycle does not seem to have taken root in Canada.

Historically protected from domestic competition by the small size of regional markets and the relative distance between them, and otherwise advantaged on the US market by the relative weakness of the Canadian dollar, companies failed to develop the right reflexes, firstly in terms of investment, which considerably weakened their productivity growth, but also in consolidating many of them in their position on a regional scale. As market integration accelerated and the Canadian dollar appreciated, exporters were caught up in terms of competitiveness, and those who had previously preferred to remain locked into their local markets saw their window of opportunity close. As a result, domestic economic growth weakened. **Fifteen years ago, when the main indicators were turning red, Canada was unable to correct its course. Today, Canada is exposed to the rise of American protectionism, because the scale of the country's structural productivity deficit limits the opportunities for developing new markets, both internationally and domestically.**

To turn things around, Canada as a whole will need to succeed in stimulating private investment to increase the growth potential of business productivity. In this respect, the provinces can no longer afford to operate in silos, relying on a patchwork of economic policies and programs. To achieve their goals, they will have to open up the domestic market to intensify competition, and the only way to do this will be to strengthen trade routes from east to west. The announcement of the construction of an HSR which will connect Quebec and Toronto is a step in the right direction, but the efforts will have to be consistent, and the promises made in the last elections to promote the diversification of trade corridors will have to be rapidly put forward. At the same time, the provinces will have to resolve to implement the principle of mutual recognition to guarantee the fluidity of internal trade, rather than taking refuge behind ineffective conciliation tables while allowing provinces to exercise a right of veto over futile issues.

DATA SOURCES

CHART 1

Canada's interprovincial and international trade

Exports to and imports from other countries: Statistics Canada, CANSIM, Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Exports to or imports from other provinces: Statistics Canada, CANSIM, Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Nominal GDP: Statistics Canada, CANSIM, Table: 36-10-0222-01 (formerly CANSIM 384-0038)

TABLE 1

Exceptions to Quebec's CFTA with regard to future measures

[Exceptions for Future Measures](#)

TABLE 2

Exceptions to Quebec's CFTA regarding public procurement

[Party-Specific Exceptions](#)

TABLE 3

Exceptions to Quebec CFTA regarding existing measures

[Exceptions for Existing Measures](#)

TABLE 4

Occupations excluded from the CFTA's labor mobility chapter

[Exceptions to Labour Mobility](#)

TABLE 5

Divergent regulations identified by the Task Force on Trucking Harmonization

Task force on trucking harmonization (2018). [Supporting the Efficient Movement of Trucks across Canada: Suggested approaches by the task force on trucking harmonization](#).

CHART 2

Canadian Survey on Interprovincial Trade (CSIT)

Interprovincial trade activities of companies in Canada over the past 12 months: Statistics Canada, CANSIM, Table: 33-10-0941-01

Obstacles encountered by businesses when selling goods or services to customers located in another province or territory over the past 12 months: Statistics Canada, CANSIM, Table: 33-10-0948-01

Reasons why companies did not sell goods or services to customers located in another province or territory in the last 12 months: Statistics Canada, CANSIM, Table: 33-10-0949-01

CHART 3

Canadian Survey on Interprovincial Trade (CSIT)

Obstacles encountered by businesses when selling goods or services to customers located in another province or territory in the past 12 months: Statistics Canada, CANSIM, Table: 33-10-0948-01

CHART 4

Canadian Survey on Interprovincial Trade (CSIT)

Reasons why companies did not sell goods or services to customers located in another province or territory in the last 12 months: Statistics Canada, CANSIM, Table: 33-10-0949-01

CHART 5

Canadian Survey on Interprovincial Trade (CSIT)

Interprovincial trade activities of businesses in Canada during the past 12 months (Sales of goods and services): Statistics Canada, CANSIM, Table: 33-10-0941-01

Obstacles encountered by businesses when selling goods or services to customers located in another province or territory during the past 12 months (No obstacles encountered): Statistics Canada, CANSIM, Table: 33-10-0948-01

Companies' international trade activities over the past 12 months (Sales of goods and services): Statistics Canada, CANSIM, Table: 33-10-0957-01

Obstacles encountered by businesses when selling goods or services to customers outside Canada in the last 12 months (No obstacles encountered): Statistics Canada, CANSIM, Table: 33-10-0961-01

CHART 6

Canadian Survey on Interprovincial Trade (CSIT)

Obstacles encountered by businesses when selling goods or services to customers outside Canada in the past 12 months (No obstacles encountered): Statistics Canada, CANSIM, Table: 33-10-0961-01

CHART 7

Total supply or total Canadian domestic demand

Total supply: Statistics Canada, CANSIM, Table: 12-10-0088-01 (formerly CANSIM 386-0003)

International Imports: Statistics Canada, CANSIM, Table: 12-10-0088-01 (formerly CANSIM 386-0003)

Interprovincial imports: Statistics Canada, CANSIM, Table: 12-10-0088-01 (formerly CANSIM 386-0003)

CHART 8

Real productivity per job in the manufacturing sector in OECD member countries

GDP \$ chained 2020: OECD – Data, STAN Database for Structural Analysis, 2025 edition

Note: STAN (OECD) and NAICS (Statistics Canada) industry classifications differ in some respects, so that productivity levels also differ from one database to the other (although growth trends are similar). The authors have therefore adjusted the Quebec data to reflect the differences observed annually for Canadian data between the STAN and NAICS databases.

CHART 9

Real productivity per job in Quebec and Canada

2017 chained GDP \$: Statistics Canada, CANSIM, Table: 36-10-0480-01 (formerly CANSIM 383-0033)

2017 GDP \$ chained: Statistics Canada, CANSIM, Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Employment: Statistics Canada, CANSIM, Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Real productivity per job in the United States

2017 chained GDP \$: Bureau of Economic Analysis, Real Value Added by Industry

Employment: Bureau of Labor Statistics, Annual hours worked and employment: detailed industries

Purchasing power parity exchange rates: OECD – Data, Annual Purchasing Power Parities and Exchange Rates

Note: GDP data by industry are presented at market prices in the U.S., while the same data are presented at base prices in Canada (Quebec), creating a gap in productivity levels to the disadvantage of Canada (Quebec). As a result, GDP for each industry in Canada and Quebec has been uniformly grossed up to reflect the difference between GDP at market prices and GDP at basic prices for the economy as a whole.

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