Breaking Down Canada's Internal Trade Barriers

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Abstract

This paper provides an overview of Canada's internal trade barriers that limit cross-province trade and competition. It summarizes the different types of barriers, how costly they are for consumers and the economy, recent efforts to reduce them, and why they persist. It then summarizes 22 reforms and investments that could be undertaken by Canadian provincial and federal governments to break down the barriers. The paper classifies these reforms into four categories and presents several strategies for incentivizing reform.

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Introduction

Canada's economy is built on trade. In 2023, Canadian businesses exported roughly $768 billion internationally. The United States alone accounts for an estimated $594 billion in Canadian exports, a huge amount that represents about 28% of Canada's total GDP.

The heavy reliance on U.S. trade makes Canada particularly vulnerable to tariffs and future trade restrictions imposed by the U.S. government. In response to recent tariff threats, policymakers and businesses in Canada are looking to diversify their export base by expanding trade relationships with other countries (Duggan, 2023). However, while strengthening international trade with other countries is essential, there is also a significant opportunity to increase trade with Canada itself.

In 2021, businesses sold $451 billion in goods and services across provincial and territorial borders, less than what they exported to the U.S. (Statistics Canada, 2024). The amount of within-Canada trade would be much higher if not for a web of provincial regulations, licensing rules, and transportation restrictions that make doing business across provincial borders complicated and costly.

Interprovincial barriers impose unnecessary costs on businesses and discourage them from operating outside of their own province, limiting jobs and keeping prices high for Canadians. A company in Ontario, for instance, may face legal hurdles or extra costs to sell products in Quebec, while a skilled worker in Alberta may need to requalify before working in British Columbia. Drastic differences in regulations and restrictions across provinces mean that Canadian businesses often find it easier to sell abroad than to customers in other provinces.

This article explains the different types of internal trade barriers, reviews the evidence on the large financial costs they impose on Canadians, and discusses why they remain in place despite these costs. It then summarizes specific investments and reforms that could be implemented to reduce internal trade barriers, and strategies for how the federal government may incentivize such changes.

Internal Trade Barriers Cost Canadians Billions

These restrictions make trade within Canada more expensive, reduce competition, and limit economic growth, ultimately costing Canadians billions of dollars every year. Research shows that Canada's internal prohibitive, technical, and administrative trade barriers are as damaging to the economy as imposing a 7 percent tariff on every product crossing provincial borders (Bemrose, Brown, & Tweedle, 2017) and cause Canadians to pay an estimated 7.8 to 14.5 percent more for goods than they would in an open market (Albrecht & Tombe, 2016).

Internal trade barriers stifle competition and innovation, increase firms' costs while forcing them to create province-specific versions of products, hinder workforce mobility, wages, and job opportunities, and constrain economic growth. Studies estimate that removing these barriers could increase Canada's GDP by $92 to $161 billion annually, translating to an additional $2300 to $4000 per person (Alvarez, Krznar, & Tombe, 2019). Yet, despite their significant cost, many of these barriers remain in place.

Challenges and Opportunities for Reform

Different Types of Barriers

While *Section 121* of the *Constitution Act of 1867* guarantees the free movement of goods between provinces, judicial interpretations have affirmed that provinces retain the authority to regulate trade for non-protectionist reasons (*R v. Comeau*, 2018). This latitude has allowed numerous barriers to continue, thereby limiting competition and restricting trade (Robertson, 2025). Persistent internal trade barriers take various forms. While they can be grouped in different ways, four major categories help illustrate the breadth of obstacles:

Prohibitive Barriers - These are outright bans or strict rules that block cross-border trade. Liquor control boards, for example, impose different rules in each province, making certain beverages impossible or more expensive to purchase across provincial lines, costing producers millions in annual revenue (House of Commons Canada, 2015). Similarly, processing requirements for goods like snow crabs or softwood lumber also fall under this category (Pittman, Dade, & Findlay, 2019).

Technical Barriers - Technical barriers arise when provinces mandate different rules or standards that add complexity and cost. Examples include provincial differences in product labeling and packaging requirements that introduce significant compliance costs, workforce certifications that limit labor mobility (Morantz, 2024), and trucking regulations that add around 8.3 percent to freight costs (Manucha & Tombe, 2024). Technical barriers can force companies to create province-specific versions of their products or require workers to re-certify.

Administrative Barriers - Often overlooked, these involve permit processes, paperwork, and licensing procedures. Even if the technical standards are the same, the application forms and approval steps can differ significantly between provinces, creating confusion and higher administrative costs. A 2023 survey found that waiting times for licensing or certification were the most significant obstacle to hiring individuals from other provinces (Statistics Canada, 2024).

The cumulative effect of the technical and administrative barriers is that companies must invest extra time and money to adjust to local rules, making it harder for them to compete on a national scale and placing smaller businesses at a disadvantage.

Geographic and Infrastructure Barriers - These are challenges stemming from Canada's vast distances, outdated transportation networks, or limited energy grid links. Weak infrastructure can stall the movement of goods and make it costly to trade between provinces, especially in remote regions.

Why These Barriers Exist

Although internal trade barriers cost the Canadian economy billions of dollars annually, they persist largely because they serve entrenched political, fiscal, and economic interests at the provincial level.

Provincial Government Revenue Protection - Provinces often collect significant revenue from regulated sectors. Liquor sales, for instance, are a key income source in many provinces. Removing restrictions risks shifting that revenue away from provincial coffers.

Industries with Regional Market Power - Certain local industries favor the status quo because barriers protect them from outside competition. Agricultural marketing boards and local processing requirements are prime examples.

Professional Associations and Licensing - Licensing bodies aim to uphold quality standards, but they can also limit worker mobility and create professional silos across provinces.

Collective Action and Coordination Problems - While reducing barriers benefits the national economy, each province weighs its own benefits against costs and political pressures. The result is often insufficient momentum for broad reforms.

Financial Costs and Complexity - Major infrastructure upgrades, such as modernizing rail lines or linking power grids, require large investments and collaboration across multiple levels of government. This high price tag can slow or deter ambitious projects.

Political and Public Inertia: The benefits of removing trade barriers are widely distributed across the economy, while the costs of reform are concentrated on specific industries or government revenue streams. This imbalance means that political leaders often lack strong incentives to push for reform, and the issue rarely gains enough public attention to generate pressure for change.

Recent Progress

Over the past few decades, various national and regional agreements have sought to reduce barriers:

Canadian Free Trade Agreement (CFTA):
Aims to create a unified market for goods, services, and labor across all provinces. However, its effectiveness is limited by numerous exemptions.[1] Operating under a "negative list" approach, the CFTA applies broadly unless a province or territory specifically exempts a sector. Many of these exemptions protect regulated industries like liquor control boards, agricultural marketing systems, and public services, reflecting historical policy choices and provincial revenue concerns. The scope of these exemptions varies, with some provinces, such as Quebec and New Brunswick maintaining 30–40, while others, like Alberta and Manitoba, retain fewer than 10 (Loeppky, Yunis, Robertson, & Whidden, 2024). These exemptions can be broad, and the burden of challenging them often falls on businesses rather than governments. However, progress has been made, as the federal government removed 20 federal exceptions in 2025, building on the 17 that were removed or narrowed in 2024. Despite these steps forward, a patchwork of exemptions still limits full economic integration across Canada.

Regional Agreements (e.g., NWPTA):
Building on this national framework, regional agreements have played an important role in furthering integration. The *New West Partnership Trade Agreement* (NWPTA) between British Columbia, Alberta, Saskatchewan, and (later) Manitoba has cut red tape and fostered labor mobility in western Canada, leading to substantial benefits to the regional economy (Teeter, 2024). These agreements introduced comprehensive trade rules, covering not only goods and services but also investment and labor mobility, while reducing regulatory barriers that previously hindered cross-provincial trade.

Unilateral Actions by Provinces:
Alberta's Labor Mobility Act and *Ontario's Your Health Act* have helped smooth cross-province credential recognition in healthcare. Nova Scotia has similarly introduced faster recognition processes for healthcare providers from other parts of Canada.

Paths Forward: Possible Reforms and Investments

Despite ongoing challenges, Canada has clear opportunities to create a more integrated national market. Many reforms can move forward without waiting for a perfect national agreement, as provinces can take unilateral action or collaborate through regional agreements.

We reviewed the academic and policy, identifying dozens of potential reforms and investments with the potential to reduce internal trade barriers. These potential actions can be classified under four strategic categories, which we present below.

Cutting Red Tape: Regulatory and Administrative Reforms

Reducing bureaucratic barriers will make operating across provinces easier for businesses, workers, and consumers.

[1] Read more https://www.cfta-alec.ca/canadian-free-trade-agreement.

Mutual Recognition of Credentials and Standards: A license, certification, or product approval valid in one province should be valid everywhere in Canada. This should include allowing the easier transfer or recertification of educators, health care workers, engineers, trades workers, and others. It could also involve the standardization of certification and apprenticeship programs, safety certifications, and other required recognitions across locations.

Streamline HR and labor regulations: Many businesses face challenges hiring out-of-province workers due to divergent provincial HR and labor regulations that require compliance with varying employment codes. Standardizing or mutually recognizing these regulations across provinces, so companies can hire talent seamlessly without undue administrative burdens is especially important in the age of remote work.

Remove or Narrow Exceptions: Provinces like Quebec and New Brunswick still maintain numerous CFTA exceptions; eliminating more of them could yield significant economic benefits. Some of these efforts are currently underway.

Reducing Protectionist Policies: Phasing out agricultural marketing boards and other restrictive policies can substantially increase competition, lower consumer prices, and improve economic efficiency. This may also involve harmonizing rules for alcohol sales and distribution across regions.

Harmonize Provincial Sales Tax Regimes: Align sales tax, QST, and HST frameworks to create a consistent national tax environment, simplifying and reducing the costs of cross-border operations and transactions.

Harmonize Business Registration: Create a "single window" system that allows businesses to register in one province and operate across Canada to reduce administrative burdens and facilitate market entry.

Speed Up and Support Dispute Resolution: Barriers often go unaddressed because the launching a claim under the CFTA is expensive. Streamlining the CFTA's dispute resolution process would make it easier for businesses to challenge trade barriers (Manucha, 2024).

Standardize Labeling and Packaging Rules: Set common standards for product labeling and packaging throughout Canada to cut production costs and streamline manufacturing compliance.

Harmonize Trucking Regulations: To reduce transportation costs, standardize weight limits, safety protocols, and fuel taxes across provinces.

Standardize Building Codes: Develop uniform construction standards nationwide to streamline permitting and lower building costs.

Standardize Government Procurement
Establish a common procurement system for government contracts across provinces. This could increase transparency and reduce costs in public procurement.

Strengthening Infrastructure and Connectivity

Upgrading transportation, energy, and digital infrastructure is essential to improving the movement of goods, services, and labor across provinces.

Expand East-West Transportation Networks: Upgrading highways and rail corridors can reduce freight costs, transportation times, and delays while increasing trade efficiency. Such upgrades involve large infrastructure investments and coordination across federal and provincial governments.

Upgrade and Link Provincial Power Grids: Modernize and integrate power grids across provinces while simultaneously eliminating regulations that limit inter-regional utility sales to lower industrial energy costs, reduce price fluctuations, and improve reliability.

Enhance Port Connectivity: Domestic shipping capacity should be improved for both international and interprovincial trade. This would reduce delays and lower shipping costs for domestic trade.

Improve Broadband Access: Expanding reliable high-speed internet infrastructure, especially in rural areas, can facilitate digital trade, remote work opportunities, and remote service delivery.

Increasing Transparency and Accountability

Trade barriers persist in part because they are not widely known or understood. Publicly tracking and reporting them can create momentum for reform.

Enhance Data Collection and Research on Interprovincial Trade: Strengthen the Canadian Internal Trade Data Hub, launched in 2024, by expanding its scope and ensuring ongoing funding. Support research that leverages this data to analyze trade barriers, identify inefficiencies, and evaluate the impact of policy changes. In the short term, funding should be provided to assess the fiscal and economic efficiency of the alternative reforms and investments discussed within this report.

Internal Trade Missions: Just as Canada funds trade delegations for international markets, similar efforts should be made to connect businesses across provinces. Such efforts help expand market opportunities and improve competition against international markets (Pittman et al., 2019).

Public Awareness Campaigns: Educate consumers on how internal trade barriers raise prices and limit choices and educate small businesses on how to engage in cross-provincial trade.

Strengthen Stakeholder Engagement: Create a council of industry leaders, government officials, and academic experts to provide guidance on trade reform, including identifying key bottlenecks and recommended standards

Public Scorecards on Trade Barriers: Expand on efforts such as the CFIB Provincial Red Tape Scorecard to rank provinces based on their barriers to interprovincial trade to create public pressure for reform.

Aligning Trade Policies with Sustainability Goals

Trade reforms should not come at the expense of environmental protection. Instead, they should align with sustainability objectives.

Harmonizing Carbon Pricing and Emissions Rules: A consistent approach to carbon pricing and emissions rules would reduce compliance costs for businesses operating in multiple provinces.

Standardizing Environmental Permitting: Create uniform environmental permitting processes to cut redundant regulations, lowering compliance costs while maintaining strong standards.

Furthermore, it is important to recognize the other trade barrier reductions may also come with environmental benefits. For example, interconnecting power grids could provide a broader set of Canadian manufacturers with access to Quebec's hydropower, or expanding rail lines and increasing trucking weight limits could reduce total emissions of shipping (Manucha & Tombe, 2024).

Paths Forward: How to Get There

Challenges with Reform

Several overarching challenges persist despite the promising benefits of reducing interprovincial trade barriers. Entrenched political interests, reliance of provinces on revenues from regulated sectors, and the complexity of coordinating reforms between multiple levels of government impede progress. Addressing these challenges will require federal leadership combined with cooperative provincial actions, ensuring that the long-term gains from reform outweigh short-term costs and disruptions.

Unilateral and Regional Action

Many reform and investment initiatives do not need federal leadership or broad coordination across all provinces and territories. Individual provinces can make substantial progress in addressing interprovincial trade barriers both unilaterally and in partnership with neighboring provinces.

Unilateral Liberalization: Provinces do not need to wait for national action. They can remove barriers on their own by aligning their regulations and business requirements with those of other provinces. They can also pass provisional legislation that agrees to reforms or reciprocity agreements under the condition that other provinces do the same.

Regional Agreements: Expanding models like the NWPTA can reduce cross-border red tape where provinces are willing to cooperate. This may involve extending the agreement to include other provinces and territories. With a set of standards already defined under NWPTA, adding other regions to the existing trade agreement may be substantially easier than trying to establish a new set of standards.

Using Financial Incentives to Drive Reform

Provinces often have little motivation to reduce trade barriers when the benefits are spread across the economy while the costs of reform are concentrated in specific industries or government revenue streams. Financial tools can help overcome this imbalance.

Tie Equalization Payments to Barrier Reduction: Provinces receiving equalization payments could be required to meet specific trade liberalization targets. This would require linking transfer payments to specific reform targets to incentivize provinces to remove restrictive regulations.

Federal Grants for Barrier Removal: Provinces that streamline regulations or eliminate exceptions should receive targeted financial support. A strong financial incentive can help solve the collective action problems and motivate reform (Perrault & Haley, 2022).

Subsidizing Legal Challenges: Many businesses hesitate to challenge unfair trade barriers due to legal costs. A "loser-pays" principle or a dedicated legal fund could help (Manucha, 2024).

Tax Credits for SMEs Expanding Across Provinces: Encouraging small and medium-sized businesses to enter new provincial markets through tax incentives or other means of offsetting regulatory compliance costs. The federal government, in coordination with provinces, could design targeted tax credit programs to lower expansion barriers.

Effective provincial financial incentives paid by the federal government may be supported by potential increases in federal revenue expected to accompany increased economic activity (Albrecht & Tombe, 2016).

Conclusion

Interprovincial trade barriers make goods and services more expensive, restrict business growth, and limit job opportunities. Removing these barriers could boost Canada's economy by up to $161 billion per year while lowering consumer prices. Yet despite clear economic benefits, progress remains slow. Provinces continue to protect tax revenues, industries lobby for protection from out-of-province competition, and coordination challenges prevent comprehensive reform. Without strong leadership and incentives, these barriers persist, holding back economic growth and competitiveness.

Both federal and provincial governments have roles to play. The federal government can tie funding to reform, support legal challenges against outdated restrictions, and provide greater transparency on provincial performance. Provinces can act independently by eliminating unnecessary regulations, signing regional agreements, and investing in shared infrastructure to facilitate cross-border commerce. As global trade patterns shift and supply chains evolve, removing internal barriers is necessary.

Breaking down interprovincial trade barriers is an important piece of a Canada-wide strategy to strengthen the economy and reduce reliance on its trading relationships with the United States. Ultimately, addressing interprovincial trade should be one dimension of a broader strategy that includes tax and employment reforms, investment in infrastructure and energy, modernization of education and research institutions, and a focus on innovation-driven industries. Reducing trade barriers is an essential component of these efforts, helping foster conditions for long-term economic growth, resilience, and a more independent and competitive Canada.

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