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BARRIERS AND BRIDGES: RETHINKING TRADE WITHIN THE FEDERATION

The Canadian Free Trade Agreement: A Quebec Perspective

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CENTRE D'EXCELLENCE SUR LA FÉDÉRATION CANADIENNE
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INTRODUCTION

Removing barriers to interprovincial trade seems relatively simple, at least on paper. Given the value of interprovincial trade (more than $400 billion), it must be freed from constraints to generate more growth. The current barriers have a significant economic impact and create absurd situations. For example, it can be more difficult for a Quebec company to export to Ontario than to the United States. Some say the solution isn't that complicated, just remove all these barriers and reap the benefits of true internal free trade. Problem solved!

Of course, nothing is ever as simple as it seems, and Canadian internal trade is no exception. It isn't just a matter of dollars and cents. We must bear in mind that this is a politically charged issue which is riddled with uncertainties — and with political considerations that are just as valid as the math. German statesman Otto von Bismarck said that politics is the art of the possible. However, the limits of possibility are defined by human beings and can change according to the time, the place and the people involved.

Quebec is seen as reluctant to lift barriers to internal trade, a surprising statement considering the size and diversity of its economy and its extensive trading relations with other provinces, particularly Ontario. Since the 2017 Canadian Free Trade Agreement (CFTA) was modelled on recent international agreements signed by Canada, the exceptions it contains draw attention and must be justified to the partners in the federation and the public (or at least the small segment of the public interested in this somewhat esoteric subject). Are these exceptions all unjustified? I will try to clarify the matter by examining the 2017 agreement and the specific case of Quebec, as the broader aspects of the issue have been amply dealt with elsewhere.

WHAT HAPPENED IN 2017?

From the beginning to the end of the two-year process that led to the signing of the Canadian Free Trade Agreement in 2017, under the impetus of the conference of ministers responsible for internal trade held on the sidelines of the 2016 Council of the Federation meeting in Whitehorse, Yukon, enthusiasm and optimism ran high. Barriers would be swept away and true free trade established between Canada's provinces.

The federal government was present and actively involved, an essential condition for success. While the provinces have been (and still are) generally considered the culprits, few people realize that the federal government is responsible for many of the obstacles through its departments, agencies, Crown corporations, procurement rules and regional development initiatives. After the 2017 agreement was signed, it was gradually integrated into the federal government's legal and regulatory framework. The federal government's obligations were clarified and its representation on the Committee on Internal Trade was secured. Since then, all barriers under federal jurisdiction have been eliminated, in large part by Bill C-5, passed in June 2025. This was an important step forward, but interprovincial barriers remain.

While the signatories of the 2017 agreement believed that significant progress had been made (which indeed was the case), it is clear that it was not enough, and the process must now be resumed and extended.

Before the CFTA, there were more than 300 exceptions. Today, about 100 to 120 remain. The number varies by province; the provinces with the most exceptions are Quebec (36) and New Brunswick (17). The task at hand is therefore not as daunting as one might think. It is reasonable to suppose that after the next rounds of revisions, legislative changes in some provinces (including Quebec) and the ongoing work of federal and provincial bodies, very few exceptions will remain. Those will be particularly difficult to resolve because they involve issues that are politically sensitive and objectively necessary for the provinces and the exercise of their prerogatives.

Constant monitoring and vigilance are necessary. For example, although Quebec had concluded and announced an agreement on interprovincial alcohol sales with Nova Scotia and British Columbia, it seems to have had little effect. The problem lies in the inertia of the responsible agencies and the lack of political will. Hopefully, the introduction and adoption of new legislation (including Bill 112 in Quebec) will strengthen resolve.

THE CANADIAN FEDERAL FRAMEWORK AND QUEBEC

Readers will not be surprised by this writer's attachment to Canadian federalism. It has been the cornerstone of my involvement in politics. This stance isn't a reflex born of blind acceptance of the status quo. It stems from my deep conviction that federalism is a governance arrangement that suits Quebec well and ensures its development. It is the most modern model for coexistence among peoples, one that brings together diverse views and interests while respecting the differences that create healthy competition between the provinces. This vision of citizenship based on pooling and sharing is at least as promising as any other.

Quebec has acted to keep Canada united but has never embraced the idea of a unitary state. Canadian federalism is asymmetrical by nature and must remain so. It is desirable for this asymmetry to extend to various areas such as health, but also internal trade. In the latter case, the asymmetrical principle was reflected in the application of exceptions that vary in number and nature by province in 2017.

Canada's economy is vast and complex. Each region has distinct economic characteristics that cannot be ignored. Given Quebec's very nature, it should come as no surprise that it would have more exceptions. Arguably, this is natural, perhaps even desirable. However, exceptions must be based on solid arguments. They should not rest simply on a desire to preserve established practices for their own sake, or on inappropriate use of identity-based arguments in cases where it is difficult to claim, in all honesty, that they apply.

The nature of Quebec's exceptions

The list of Quebec's 36 exceptions can be found on the Canadian Free Trade Agreement website (and in the appendix to this article). Before discussing them, it should be noted that Quebec has recently introduced legislation on the issue, as have other provinces. The Quebec government has *announced* its intention to eliminate five of the exceptions, after passing the legislation and adopting regulations (Crête, 2025):

- Residency requirement for funeral home directors
- Requirement for real estate brokers to have an office in Quebec
- Residency requirement for racehorse owners
- Residency requirement for members of the board of directors of the Société des traversiers du Québec
- Provincial rules governing the use, sale, transport, delivery, storage and destruction of explosives

This is progress — albeit modest. From a political point of view, the five exceptions in question are not particularly sensitive, underscoring the fact that major economic sectors have yet to be touched. As is often the case, the more contentious issues will be addressed at a later date. Nonetheless, Bill 112, introduced in May 2025, is another step in the right direction. It addresses two areas of internal trade: mutual recognition of products and mutual recognition of professional licences and certifications to promote interprovincial mobility of workers. As discussed above, it is natural that Quebec, with its distinct character, would implement more exceptions than other provinces. But as the five exceptions that are being removed indicate, it is not accurate to say that all the exceptions are crucial for maintaining and promoting this distinct character. Nevertheless, and this will be the "crux" of the next steps, some carry considerable political weight, particularly in the regions of Quebec where most elections are decided. In agriculture and forestry, for example, management practices and the existence of a large number of co-operatives significantly impact land use patterns, which are a geographical expression of Quebec's identity. In my view, two areas will be key in discussions about internal trade in Canada.

Two key sectors

First, supply management in the dairy, egg and poultry industries is an issue that deserves special attention. Quebec wants to prevent the dumping of U.S. surplus production in its market, which would threaten the existence of small farms. These farms, often family-owned, would be at risk of being replaced by large-scale industrial farms, a model of rural development that Quebec has not chosen. Supply management is under heavy attack on three fronts: in the United States, in parts of Canada where the dairy industry has a limited presence, and from (mainly urban) media outlets and organizations that advocate an unregulated free market, based on the fact that prices are slightly higher in Canada.

It must be borne in mind that, below a threshold that has never been reached, U.S. imports are not subject to any tariffs. And Canada is by no means the only country that uses public policy and funds to support farming. The United States provides massive support for agriculture through major government subsidies. As in many cases, we must clearly distinguish between means and ends (avoiding overproduction, stabilizing prices, preserving small farms in outlying regions). We must be prepared to review or improve the means without deviating from the objectives.

Second, the bulk of Canadian aluminum production comes from Quebec, due to its abundant, low-cost hydroelectric power. Hydro also has a small carbon footprint, a factor that is gaining in importance and could become a competitive advantage. It is therefore not surprising that Quebec takes a keen interest in this issue in trade negotiations. In 2017, our U.S. counterparts raised the issue of a Trojan horse mechanism by which low-quality aluminum, largely from China, was entering the U.S. market through Canada. This proved to be a legitimate concern and led to corrective measures.

LINGUISTIC AND CULTURAL BARRIERS

Provisions to protect and promote the French language and culture in Quebec are very important and affect many areas covered by agreements such as the CFTA. One can decree the equivalence of professional certifications from coast to coast, but in practice, it wouldn't mean that all professionals from across Canada would be able to work in Quebec, because they would still have to comply with language requirements.

Other governments are not questioning the necessity of language laws and cultural policies in Quebec. Granted, these are indeed non-tariff barriers, given the costs associated with legal and regulatory compliance. However, many businesses already deal with requirements of this type in their international activities without protest. A company cannot seriously consider moving into Quebec without adapting to local employees and customers, who expect to be able to work and be served in French. Ignoring this obvious fact is a sure recipe for business failure. The challenge is greater and the adjustment more burdensome for smaller companies. The solution is simple: hire key personnel in Quebec, establish a subsidiary there or form strategic partnerships. Of course, all of this comes at a cost, but that is the cost of doing business with a reasonable chance of success.

Paths along which progress is possible

As in 2017, the trickiest issues will involve local value chains (particularly in the forestry and agri-food sectors) and Quebec's major state-owned corporations.

Hydro-Québec is an economic driver in Quebec — even more so since the adoption of its new strategic plan, which calls for investments of $155-$185 billion between now and 2035. Quebec's small and medium-sized businesses expect to reap benefits, particularly in outlying regions. Awarding many of the contracts to businesses outside Quebec would give rise to dissatisfaction and tension. But even if every effort were made to ensure that benefits accrue to local economies, the volume of investment involved will inevitably require harnessing capacities beyond our borders and create lucrative opportunities for companies outside Quebec. And of course, it must be remembered that while businesses in other provinces will be able to bid on some contracts in Quebec, many Quebec small and medium-sized businesses have access to contracts in other provinces. This is the essence of an internal market. In short, there will be room for everyone.

After years of effort by previous governments, the recent agreement between Quebec and Newfoundland and Labrador is excellent news. It will increase electricity generation for the benefit of both provinces and strengthen Canada's position as a world leader in conventional, nuclear and, in this case, renewable energy — with renewables being a critical sector. Construction of a transmission line, for which federal financial support has been requested, is a prerequisite.

The Société des alcools du Québec (SAQ) — which holds a monopoly on distribution and retail sales of alcoholic beverages in Quebec — has been tasked with supporting the development of Quebec producers, whose products have been improving in quality and gaining in popularity. However, the ecosystem of local producers is relatively new and cannot be considered an economic sector that is part of Quebec's identity. Major progress could therefore be made on reciprocal market access. In this connection, the Comeau affair, which caused a stir in the not-so-distant past and whose consequences have yet to fully play out, cannot be left unmentioned.

In 2012, Gérard Comeau, a New Brunswick resident, travelled to Quebec, purchased 354 cans of beer and three bottles of spirits, and brought them back to New Brunswick. He was stopped and fined $240 for importing alcohol from another province. Comeau challenged the fine under section 121 of the Canadian Constitution, which states that "All Articles of the Growth, Produce, or Manufacture of any one of the Provinces shall, from and after the Union, be admitted free into each of the other Provinces." On its face, this seems straightforward. However, in a 2018 decision, the Supreme Court ruled in favour of the New Brunswick government. The Court found that section 121 does not confer absolute commercial freedom and that a government can legitimately impose non-tariff barriers for valid reasons, even if they have an impact on interprovincial trade. In response to this decision (and now to the U.S. tariff offensive), the federal government and several provinces have introduced bills demonstrating their intent to liberalize trade. We can therefore expect more legal skirmishes, but the landscape has changed considerably since the New Brunswick government's battle in the Comeau case.

The Quebec construction industry (which is complex and has more regulated trades than our neighbours, particularly Ontario) is another sector that Quebec jealously protects. As a result, our workers have fairly easy access to construction jobs in other provinces, but not vice versa. Bill 112 aims to even out the differences, but this is a particularly sensitive issue, given the impact on unions. Despite the challenges, however, improving this situation should be a priority. This is another area where progress can hardly be resisted on the grounds of Quebec's identity.

In short, there are many paths along which progress is possible. But we should not expect immediate, spectacular advances, particularly in the areas we have just described. Progress will continue, but at a slower pace than some expect.

THE IMPACT OF REMOVING BARRIERS

Too often, very wide-ranging merits are ascribed to the removal of interprovincial trade barriers. Certainly, reducing their number and impact is highly desirable (it is unlikely that the exceptions will be entirely abolished). However, the benefits should not be overestimated. According to a report by the Centre sur la productivité et la prospérité (CPP) at HEC Montréal, regulatory barriers are a relatively minor factor in business decisions not to engage in interprovincial trade. Only 8.6 per cent of companies choose not to trade in more than one province on account of various obstacles, and fewer than one per cent cite regulatory barriers as the main impediment. Distance is a more important barrier, and it can hardly be shortened by regulatory changes. As for Canada's economy as a whole, the solutions will have to be sought more in our weak productivity and the competitive environment. That said, we cannot bury our heads in the sand. According to some estimates, interprovincial barriers create a burden equivalent to a 25 per cent tariff, resulting in an annual loss of $2,900 to $5,100 in per capita living standards (Tombe & Manucha, 2022). Researchers at HEC Montréal believe those estimates are probably exaggerated. But in this area, as in others, the potential savings and gains are not negligible.

LOOKING AHEAD

The upcoming adoption of Bill 112 in Quebec and the announced elimination of five exceptions in relatively minor sectors will have little real impact. Progress will have to be made in more difficult areas. Alcoholic beverages could be addressed first. Success on this front could be a catalyst for advances on other, more challenging issues. Hydro-Québec's procurements could follow, with strong guarantees of reciprocal access. At the same time, some other minor exceptions could be eliminated. While heavy transport is complex, it is another area where progress should be made.

However, it would be a mistake to think that Canadian internal trade is an issue that can be fully resolved in the near future. Provincial governments that will be facing voters soon, such as Quebec's, must proceed with caution: major concessions in sensitive areas such as forestry, construction or co-operatives (e.g., Desjardins) could prove costly at the polls, particularly outside the urban centres.

It would be advantageous to create a negotiating team, led by an experienced chief negotiator, and to strengthen dispute resolution mechanisms.

The reluctance to drop trade barriers has many causes. Resistance to change is one. It springs from an understandable attachment to Quebec's identity, which is, however, sometimes inflated in view of the nature of the issue at hand or confused with more mundane business issues (as in the case of alcohol sales or construction). But it can also be a reaction against the uniformity desired by some or, it must be said, a lack of confidence in our companies' ability to succeed from coast to coast. Yet Quebec businesses have everything they need to succeed in Canadian markets, as they do internationally. We should have confidence, and that is the message we need to convey.

APPENDIX: SUMMARY OF QUEBEC’S 36 EXCEPTIONS

1. Real estate brokers — must have office in Quebec*
2. Land transportation — residency requirements, permits, concessions, trucking quotas
3. Maritime transport (ferries) — board members must be domiciled in Quebec
4. Horse racing — privileges granted only to Quebec residents and horses*
5. Acquisition of agricultural land — non-residents need authorization
6. Funeral homes — residency requirement for directors (12 months)*
7. Co-operatives — head office and proportion of operations in Quebec
8. Marine product processing — minimum sales/production standards
9. Hunting/trapping/recreational fishing — permits reserved for residents
10. Forestry and silviculture — wood must be processed locally
11. Alcoholic beverages — SAQ, bottling in Quebec, limited distribution
12. Energy — electricity — monopoly for Hydro-Québec and municipal grids, controlled export
13. Electricity exports — contracts subject to government approval
14. Travel agencies/guides — must have office in Quebec*
15. Collection agencies/private security/civil protection — must have office in Quebec
16. Driving instructor permit — local requirements
17. Marriage licence — specific administrative process

18-36. Other miscellaneous exceptions, including:
- Public procurement (National Assembly, Hydro-Québec, municipalities, SAQ, etc.)
- Security requirements (civil/special permits)
- Requirements for wood processing, agriculture (wild rice), chemicals, seafood
- Regulation of social services and energy infrastructure (gas)

*** Exceptions lifted in July 2025**

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