POLICY · CAPITAL

The Tariff Canada Imposes on Itself

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Washington's tariffs are visible and politically explosive. Canada's internal barriers are quieter and may be more damaging.

I have spent much of my career thinking about risks that compound slowly. They rarely attract much attention at first. A little more cost here. A little less competition there. One investment postponed, one expansion abandoned, one promising company sold early.

Nothing looks decisive in a single year. Over a few decades, the consequences become hard to miss.

Canada's internal trade barriers belong in this category.

We have spent much of the past two years worrying, understandably, about the tariff wall rising along the American border. Yet the more costly border may be the one running through Canada itself.

The Bank of Canada estimates that US tariffs now average about 5 per cent on Canadian goods. The International Monetary Fund estimates that regulatory and administrative barriers within Canada impose trade costs equivalent to roughly 9 per cent. In parts of the service economy, the estimated burden exceeds 40 per cent.

That 5 per cent figure is a mid-July snapshot. After negotiations broke down in August, Washington imposed 50 per cent tariffs on roughly C$28bn of additional Canadian goods; Ottawa announced matching counter-tariffs effective September 8. The precise trade-weighted average will change. The strategic point will not: Canada cannot control the border on which it depends, but it can dismantle the barriers within its own.

The figures are not directly comparable. The US number is an observed, trade-weighted tariff on goods. The Canadian number is a modelled estimate of the effects of regulations, licensing rules and other non-geographic barriers across goods and services. But even with that caveat, the contrast is striking. Canada is asking Washington for more reliable access to the American market while still failing to provide Canadians with reliable access to their own.

Invisible borders

There are no customs booths between Ontario and Quebec. No official collects a 9 per cent duty as a truck enters New Brunswick. The barriers are less visible.

A product accepted in one province may face different certification requirements in another. Trucking companies deal with inconsistent permitting systems. Professionals qualified to work on one side of a provincial border can require additional recognition on the other. Procurement systems may favour local suppliers. Food processors trying to sell nationally can encounter another level of inspection and compliance.

Most of these rules can be defended individually. Provinces regulate for legitimate reasons: health, safety, consumer protection and local conditions. The problem is what happens when thousands of individually defensible rules accumulate.

A country of more than 40 million people begins to operate like a collection of smaller markets. For investors, the cost is not merely that consumers have less choice or pay more for certain products. The deeper cost is that Canadian businesses struggle to achieve scale.

A company expanding from Ontario into Alberta or Quebec does not always encounter a single domestic market. It may encounter new regulators, professional bodies, licensing requirements and compliance systems. Some costs are small, but many must be paid before the company earns its first dollar of additional revenue. For a large corporation, that is an irritation. For a smaller company, it can determine whether expansion makes economic sense.

The rational choice may be to remain regional. For a more ambitious company, it may be easier to enter the much larger US market or sell to an American buyer than to build a genuinely national Canadian business.

Internal trade barriers do not explain Canada's entire productivity problem. Capital availability, taxation, competition, management ambition and the gravitational pull of the United States all matter. But Canada cannot complain that its companies lack scale while making scale unnecessarily expensive.

The C$210bn temptation

The IMF estimates that fully removing non-geographic internal trade barriers could raise Canadian real GDP by nearly 7 per cent over the long term. In today's terms, that is approximately C$210bn.

It is an irresistible headline. It should also be handled carefully. The C$210bn is not cash sitting in a locked room. It is the modelled increase in economic output that could eventually result from better allocation of labor and capital, stronger competition and greater corporate scale. It assumes the full removal of barriers, an ambitious counterfactual, not a forecast.

Some economists also argue that such models attribute too much weak interprovincial trade to policy and too little to distance, geography and differences in regional economies. Not every provincial variation is disguised protectionism.

That objection is reasonable. But even if the estimate is too high, the underlying problem does not disappear. The important question is not whether the precise prize is C$210bn. It is whether Canada has left a meaningful amount of productivity on the table at a time when it can least afford to do so. The answer is almost certainly yes.

Population-driven growth is slowing. Business investment per worker remains weak relative to the United States. Productivity is no longer an abstract concern. It is becoming a binding constraint on Canadian living standards.

Removing unnecessary internal barriers is one of the few growth policies that does not begin with a large government cheque.

The real prize is not beer

Interprovincial trade debates often turn to alcohol. Canadians understandably find it absurd that buying foreign wine can sometimes be easier than ordering directly from a neighbouring province. It is a wonderful illustration. It is not the main economic issue.

The IMF estimates that roughly four-fifths of the potential gain from internal liberalization would come from services. That is where the story becomes much more important for investors.

Finance, transportation, telecommunications and professional services are not only large sectors. They are inputs into almost everything else. If a manufacturer pays more for transportation, financing, insurance, engineering or legal advice because suppliers cannot operate efficiently across provinces, the cost travels through the economy.

A barrier in one service industry can quietly reduce the return on capital somewhere else. That helps explain why internal fragmentation is more damaging than its invisibility suggests. It does not simply protect a local producer. It influences where businesses invest, whom they hire and whether they expand.

Washington provided the urgency

Canada has been trying to solve this problem for decades. There have been trade agreements, working groups, regulatory tables and many optimistic announcements. The barriers proved more durable than the political commitments.

What changed was not a sudden conversion to economic theory. It was the return of American protectionism.

Canada built highly efficient north-south supply chains. That made sense when access to the US market looked permanent and broadly predictable. East-west integration could remain unfinished because Canadian companies could achieve scale by looking south. US tariffs have exposed the fragility of that assumption. Ironically, Washington may accomplish something decades of Canadian federalism could not. It has turned internal trade reform from a worthy aspiration into an economic necessity.

There has been real movement. The federal Free Trade and Labour Mobility in Canada Act came into force at the beginning of 2026. Federal, provincial and territorial governments have signed a mutual-recognition agreement covering many goods. In principle, a covered product that can be sold legally in one jurisdiction can be sold elsewhere without duplicative testing or certification.

But investors should read the exclusions as carefully as the announcement. Food, alcohol, cannabis, tobacco, plants and live animals are outside the goods agreement. Governments may retain specified requirements. Most importantly, services, which are the source of most of the estimated economic gain, remain unfinished. Governments are targeting an agreement by the end of 2026.

An agreement is not the same as implementation. And implementation is not the same as changing business behavior. Canada has become very good at announcing the removal of barriers. The next stage must be measured in lower costs, faster approvals and actual cross-provincial expansion.

When a moat is really a wall

For institutional investors, this is where the subject becomes more than macroeconomics.

If internal barriers fall, strong regional businesses may gain access to a much larger addressable market. Fragmented industries could become easier to consolidate. Labor mobility could reduce bottlenecks in construction, infrastructure and resource development.

But reform will also create losers. Some regional companies earn attractive returns partly because competitors have difficulty entering their province. Their apparent moat may consist not only of brand, customer relationships or operating skill, but also of regulatory friction. When that friction disappears, so can the margin.

This matters particularly in private markets. A provincial platform may look scarce and defensible within its protected market. An investor may then pay a high multiple on the assumption that the business can be replicated nationally. But liberalization cuts both ways. It can make expansion easier while allowing new competitors into the platform's home market. The same reform that enables the roll-up can weaken the economics used to justify the acquisition price.

How much of this company's moat comes from superior economics, and how much comes from the difficulty its competitors face crossing a provincial border? That distinction rarely appears explicitly in an investment memorandum, but I think it should.

Canada's internal market will not become frictionless overnight. Provincial interests are entrenched, legitimate regulatory differences will remain and the theoretical C$210bn dividend will never be collected in full.

But external pressure has changed the calculation. Dependence on the United States now looks riskier. Domestic scale looks more valuable. The cost of Canadian fragmentation is becoming harder to ignore. The real test will not be another agreement signed by 14 governments.

It will be whether companies begin expanding across provincial borders, whether workers can move without bureaucratic delay, whether business investment rises, and whether some comfortable regional margins start to fall.

America's tariffs are imposed on Canada. The more uncomfortable question is why Canada continues to impose barriers on itself.

Sources and methodology

International Monetary Fund, "Canada Can Grow Faster by Unlocking Its Own Market," January 27, 2026. Bank of Canada, July 2026 Monetary Policy Report: Tariff Assumptions. Canadian Free Trade Agreement, Canadian Mutual Recognition Agreement. Committee on Internal Trade, Communiqué, August 27, 2026. Prime Minister of Canada, Statement on Canada–US Trade Negotiations, August 21, 2026. Department of Finance Canada, Targeted Countermeasures in Response to US Tariffs, August 25, 2026.

Note: The 5.0 per cent US tariff estimate and the approximately 9 per cent internal trade-cost equivalent measure different phenomena and are not directly comparable. They are presented to illustrate the scale of two distinct frictions, not as a like-for-like tariff differential.