



# **THE PRODUCTIVITY PUZZLE**

Competition, Trade, and Regulation:  
Progress and Opportunity

July 2025



# Summary Paper: Breaking Down Barriers: Unlocking Canada's Economic Potential

The Partnership's *Productivity Puzzle* initiative kicked off with a launch event on April 3<sup>rd</sup> featuring journalist Andrew Coyne as keynote speaker. This session set the stage for the project by defining productivity, explaining its importance, reviewing our performance, and identifying various means to work towards improvement.

This event was light on kittens and rainbows. Mr. Coyne did not mince words in examining our lacklustre statistics and describing the urgency of the challenges we face.

Competition, regulation, and trade were among the opportunities noted for real improvements to our productivity and economic growth trajectories, and these were the focal points of our most recent event, held on June 5<sup>th</sup> in collaboration with the School of Public Policy at the University of Calgary and the Public Policy Forum.

While the discussion did not shy away from the serious issues we face, the event featured an uplifting mix of envisioning opportunity and marking progress. The keynote address was delivered by Professor Trevor Tombe, Director of Fiscal and Economic Policy, the School of Public Policy and Professor, Department of Economics, University of Calgary, and Public Policy Forum Fellow.

Professor Tombe shared the results of his new paper, [Free Atlantic: Unlocking Regional Growth](#), released by the Public Policy Forum on June 5<sup>th</sup>, which quantifies the impact of reducing trade barriers among the Atlantic provinces.

He began with a definition:

"[I]t is important to clearly define what internal trade costs in Canada actually are. Unlike trade between countries, tariffs are not levied on economic transactions between provinces; this is explicitly prohibited by the Constitution. Instead, Canada's highly decentralized federation has created internal trade costs not by design, but as an unintended consequence of enacting different rules, regulations, standards and certifications across jurisdictions."

**According to his research, the cost of moving goods between the Atlantic provinces is equivalent to a six per cent tariff, while the cost of trading services is nearly 39 per cent.**

He noted that smaller economies like the Atlantic provinces tend to benefit disproportionately from the removal of trade barriers and that the greatest potential gains were in the service sector. Furthermore, he pointed out the multiplier effect from reducing trade friction in goods and services that serve as intermediate inputs to other businesses that are producing final outputs for consumers – transportation and financial services were cited as examples. The high end of his range of estimated benefits is reached when provinces agree to full mutual recognition of each other’s regulations, while lower, but still meaningful, levels of benefits are generated through regulatory harmonization efforts, which involve negotiations among provinces to agree to the same standards (e.g., labelling requirements for packaged food).

Professor Tombe provides some caveats in his analysis. It will take time for these impacts to be fully realized; while significant annual benefits from trade liberalization may accrue, they will not appear in full the morning after barriers are lessened. Depending on how benefits manifest themselves – via lower consumer costs or higher wages for workers – there could be implications for the levels of federal transfers provided to the provinces.

Nonetheless, the opportunity is compelling. In his best-case scenario, the annual per capita gains in Nova Scotia would reach \$5,900. As he states:

“[E]ven modest reductions in interprovincial trade barriers can yield significant economic benefits for the region — measured in higher wages, lower prices and increased productivity. ... For all four Atlantic provinces, the benefits are substantial ... these gains are not at the expense of other provinces. Rather, they result in net national improvements, with modest benefits extending to the rest of Canada as well. ... In short, internal trade reform is a potentially

low-cost, high-impact policy lever. While not a solution to all economic, affordability and productivity challenges today, deepening regional trade and mutually recognizing each other’s regulations and so on can result in substantial economic gains.”

Professor Tombe and other speakers took the opportunity to recognize Nova Scotia’s leadership on these issues with the *Free Trade and Mobility within Canada Act* that was introduced in February and given Royal Assent in March. In a happy coincidence with our June 5<sup>th</sup> *Productivity Puzzle* event, on June 4<sup>th</sup> the Province of Nova Scotia announced that, consistent with the *Act*, the removal of trade barriers with Alberta and Prince Edward Island was coming into effect immediately, while barriers with British Columbia, Manitoba, and Ontario will be removed upon proclamation of their equivalent legislation, which is expected soon.

We have noted that some degree of courage will be required to make the substantial policy changes that will spur productivity improvement. The courage shown by the leaders of these provinces was noted and applauded at our event.

In additional remarks<sup>1</sup>, as well as interviews and panel discussions,<sup>2</sup> there was broad agreement on the concept of reducing trade barriers and regulatory friction in pursuit of enhanced competition, productivity improvement, and accelerated economic growth. There also was recognition that there will be communication and implementation challenges on the path to achieving these objectives.

As noted above, the potential gains on the table are truly substantial, but they will not be realized overnight, and public expectations will need to be managed accordingly.

Trade barriers and productivity improvement are not dinner table discussion items for most Nova Scotians and the risk that the quest for the latter be

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<sup>1</sup> Minister John Lohr, Finance and Treasury Board, Province of Nova Scotia; Mayor Andy Fillmore, Halifax Regional Municipality; Laura Lee Langley, President, Atlantic Canada Opportunities Agency; and Riaz Kara, Vice President, Policy, Public Policy Forum.

<sup>2</sup> Jeannine Ritchot, Assistant Deputy Minister, Multilateral Relations & Internal Trade, Intergovernmental Affairs, Government of Canada; Carlo Dade, Director of International Policy, the School of Public Policy, University of Calgary; Angela Houston, Executive Director, Trade and Economic Policy, Nova Scotia Department of Intergovernmental Affairs; and Mike Davis, President and CEO, Davis Pier (Gold Sponsor).

misinterpreted as “we all have to work longer hours” remains substantial.

While effectively refuted by Professor Tombe during the question-and-answer session, some will subscribe to the charge that regulatory harmonization or mutual recognition across borders will lead to a “race to the bottom” with ever more lax safety and environmental standards as the end result. People holding these views will need reassurance.

It is important to remember that underlying the desire to make regulation more efficient and remove impediments to trade is the core principle of maximizing the level of competition in markets for the benefit of consumers through better quality and lower prices. When competition increases, though, there inevitably will be some losers – more productive and efficient firms will take customers and market share away from those firms who cannot provide the same level of quality and value. In some cases, businesses will close and workers will need to move to new employment opportunities. The need to support these businesses and workers must be front of mind as transitions occur.

Finally, anxiety over impending change is natural, but Nova Scotia companies and workers have as much capacity for excellence, innovation, and competitiveness as those anywhere. The courage behind the bold moves we have seen in recent weeks is not only welcome, it is justified.

## What happens next?

Our next point of focus in the *Productivity Puzzle* project is labour and skills.

Building on the past two events, we will explore how human capital – the skills, knowledge, and capabilities of workers – is a key driver of productivity, growth, and prosperity. The agenda will include a visionary keynote alongside dynamic, engaging panel discussions featuring post-secondary and private sector leaders and experts and diverse local labour market voices.

Keep your eye on [this space](#) for further information leading up to our next event in October.

## 5 Key Takeaways

- Canada’s highly decentralized federation has created internal trade costs not by design, but as an unintended consequence of enacting different rules, regulations, standards and certifications across jurisdictions.
- The cost of moving goods between the Atlantic provinces is equivalent to a six per cent tariff, while the cost of trading services is nearly 39 per cent.
- Internal trade reform is a potentially low-cost, high impact policy lever. While not a solution to all economic, affordability and productivity challenges today, deepening regional trade and mutually recognizing each other’s regulations, credentials, and so on can result in substantial economic gains.
- Smaller economies like the Atlantic provinces tend to benefit disproportionately from the removal of trade barriers and that the greatest potential gains were in the service sector.
- In Professor Tombe’s best-case scenario, the annual per capita gains in Nova Scotia would reach \$5,900.