

Brewing is also subject to regulations which create barriers. Most notably, provincial regulations require that a company must have a brewing establishment in the province before its products can be displayed in retail stores. Out of province beers can be sold, but only if a prohibitive special surtax is paid. Consequently, regional brands are only available in the province where they are brewed. This has given rise to an anomalous situation where one regional brand, Moosehead beer of New Brunswick, has been able to capture fourth place in the U.S. import market (6.2% share of the import market) while remaining unavailable in most of Canada.

Aside from the irony of such situations, these barriers have resulted in a fragmented industry with every province except Prince Edward Island having a brewery, (and it has recently been announced that P.E.I. will soon have its own brewery, to be established with assistance from DRIE). This is in sharp contrast to the structure of the American industry, which is more concentrated and which has been able to achieve significant economies of scale, with the result that in the United States average units of production per employee are three times the Canadian average.

Government Procurement as an Internal Barrier to Trade

Most provinces employ government procurement policies in order to give preferential treatment to local suppliers (as does the federal government, within the limitations imposed by the GATT Agreement on Government Procurement). The basis of procurement preferences is usually derived from purchasing policies and regulations. Governments generally allow themselves wide latitude in defining requirements for suppliers, including the provision of local employment. These preferences can take three main forms:

- (i) requirements definition - performance standards designed to match closely the capabilities of given firms.
- (ii) source lists - most governments maintain source lists, on which out-of-province firms may find it difficult to have themselves listed.
- (iii) tender evaluation - local suppliers may be allowed a margin of preference.

These procurement preferences are usually extended to cover most provincially owned or funded electricity, communications and transportation utilities. The economic importance of such barriers is limited by the overall size of government procurement of goods and services. However in some sectors and for some products, such as transportation, telecommunications and mass transit equipment, governments and their agencies are significant purchasers. As well, one-third of the Canadian telecommunications services industry is