There is a wide range of areas where internal barriers exist: labour mobility, government procurement, and industrial programs. This paper examines a limited number of such areas more directly relevant to trade negotiations:

- liquor regulation;
- government procurement;
- agricultural policies;
- transportation regulation; and
- subsidies.

Liquor Regulation

Importation and interprovincial trade in alcoholic beverages in Canada is controlled by the Federal Importation of Intoxicating Liquors Act. Under this Act, liquor deemed intoxicating by the law of any Canadian province may be imported or transported between provinces only by a provincial board, commission, officer or governmental agency vested by the province with the right of selling intoxicating liquor. The exceptions to this requirement relate to the importation of alcoholic beverages for sacramental or medicinal purposes or for manufacturing or commercial purposes other than manufacture or use as a beverage. The marketing and retail sale of alcoholic beverages within provinces is controlled by independent boards and agencies in the ten provinces and two territories of Canada as regulated by provincial statutes and territorial regulations. Production and exportation of alcoholic beverages are controlled by federal excise regulations.

Private traders may import alcoholic beverages for retail sale in Canada if they hold permits issued by provincial liquor control authorities. An exception exists for persons duly licensed by the Government of Canada to carry on the business or trade of distiller or brewer where the intoxicating liquor is imported solely for the purpose of being used for blending with or flavouring the products of the business or trade of that person.

Within this framework, the provinces regulate the marketing of alcoholic beverages and create barriers which take the form of discriminatory marketing, quotas, differentiated mark-ups on local products versus imports from other provinces and countries, as well as more stringent packaging requirements for imports. In marketing, provinces can discriminate against out-of-province producers by favouring local products with preferential advertising, listing requirements and pricing policies. Provinces can also limit private purchases by quota systems or taxes on purchases.

For example, in Ontario, local wineries may establish retail outlets while imported wines must be sold through the liquor Board, and Ontario wine may be merchandised in a wider range of bottle sizes than imported wines. The mark-up on imported wines is 123 percent, on other Canadian wine 105 percent and on Ontario wine from 58 to 75 percent. As well, mark-up rates on alcoholic spirits are lower for Ontario products. Similar barriers exist in other provinces, especially British Columbia and Quebec.