

future placed in jeopardy. In many instances, it only takes one rival firm unwilling to price in this "opportunistic" fashion for competition to arise.

Apart from strong domestic competition, Canada is also exposed to international competition, since we import a sizeable number of goods and an increasing number of services into the economy. As several witnesses pointed out, the lowering of domestic tariffs as a result of the Canada-U.S. Free Trade Agreement will add measurably to the competitive nature of the marketplace.

We find these explanations to be compelling and are satisfied that market forces will by and large cause firms to be responsible in their pricing. We are also swayed by the argument of numerous witnesses that a soft economy at the time of the tax's introduction would make it more difficult for firms to avoid passing on the tax savings; weak markets will, in most instances, force the passthrough of benefits to buyers.

Furthermore, several witnesses pointed out that in very competitive markets some firms would not even be in a position to pass on the full cost of the GST and would have to absorb part of it in the form of reduced profit margins in order to retain market share. As the Business Council on National Issues pointed out, this situation would most likely arise in those industries experiencing soft market conditions.

The degree of competition is certainly the critical factor in ensuring that firms do not take advantage of the tax change to boost profits, but it should also be noted that public commitments to pass on the tax savings can also be effective. The Committee was able to obtain pledges from virtually all the businesses and business associations appearing before it that they would pass on the full tax savings that could be identified or would urge their membership to do so. A complete list of the firms and associations that committed in front of the Committee to pass on the savings is included in Table 1.

At first glance, it is reasonable to doubt the significance of major corporations' or trade associations' public commitments not to profit from tax reform. After all, would they likely say otherwise? On analyzing the situation further, however, taking into account the competitive advantage that price reductions can bring about, it becomes evident that there is much to support these public statements.

When a business commits itself to passing along the FST savings to its customers, whether they be wholesalers, retailers or final consumers, it must back this undertaking with a serious effort to identify the amount of FST embedded in the price of the goods it sells. Manufacturers must ask suppliers well in advance of the GST implementation