

TABLE 13**Sensitivity Analysis for Scenario 1**
(Percentage change over the base case)

CET is set to the minimum of Canada-USA MFN rates.

With Original Elasticity Substitution Parameters						
	Exports ^a	Imports ^a	Terms of Trade ^a	Output	Real Revenue	Welfare
Canada East	3.37 (1.60)	3.78 (1.49)	-0.37 (-0.23)	0.00	0.08	0.06
Ontario	2.56 (1.47)	2.07 (1.31)	-0.26 (-0.22)	0.02	0.05	0.03
Canada West	3.07 (1.97)	5.21 (2.22)	-0.27 (-0.14)	0.01	0.10	0.07
USA	0.84	0.50	-0.12	0.01	-0.01	-0.01
ROW	0.26	0.62	0.20	-0.01	0.05	0.06
Elasticity Substitution Parameters Decrease by 25%						
	Exports ^a	Imports ^a	Terms of Trade ^a	Output	Real Revenue	Welfare
Canada East	2.45 (1.19)	2.63 (1.05)	-0.36 (-0.22)	0.00	0.03	0.01
Ontario	1.87 (1.10)	1.46 (0.92)	-0.26 (-0.22)	0.02	0.01	-0.01
Canada West	2.24 (1.44)	3.63 (1.57)	-0.27 (-0.14)	0.01	0.07	0.03
USA	0.62	0.35	-0.12	0.01	-0.02	-0.01
ROW	0.17	0.48	0.20	0.00	0.05	0.05
Elasticity Substitution Parameters Increase by 25%						
	Exports ^a	Imports ^a	Terms of Trade ^a	Output	Real Revenue	Welfare
Canada East	4.37 (2.06)	5.06 (1.99)	-0.38 (-0.23)	-0.01	0.12	0.10
Ontario	3.28 (1.86)	2.71 (1.71)	-0.26 (-0.22)	0.01	0.09	0.07
Canada West	3.98 (2.55)	6.96 (2.93)	-0.27 (-0.15)	0.00	0.14	0.11
USA	1.09	0.67	-0.12	0.02	-0.01	-0.01
ROW	0.36	0.78	0.20	-0.01	0.05	0.06

^a For Canadian regions, numbers in bracket take into account interprovincial trade.**Sensitivity Analysis**

The magnitudes of the elasticities of substitution are critical determinants of the direction and size of the impact of any hypothetical trade policy change. The higher the degree of substitution between goods produced locally and imported goods, the larger the impact of a reduction in the external tariff or tariff equivalent protection on trade flows and consequently on domestic production, prices and economic welfare. Furthermore, the value of the elasticity of substitution directly affects the size of the unobserved trade costs: the smaller the elasticity, the larger the UTCs calibrated and vice versa. To check for the robustness of our model, we have run sensitivity results for the different experiments that we have undertaken. We have first reduced the values of the elasticities of substitution by 25 percent and then increased them by 25 percent. Sensitivity analysis for *scenario 1b* of CET (Table 13) demonstrates that trade flows fluctuate by approximately 25 to 35 percent from the base case scenario in