

Canada West, while agricultural exports rise by 13.58 percent in Canada East (*scenario 1b*). In the U.S. exports of food and agricultural goods increase by 20.52 percent and 4.01 percent respectively.

### Sectoral output effects

As the sectors most impacted by the proposed policies are those of agriculture, food, textile and clothing, we focus on these sectors for the following discussion of sectoral effects. Thus in *scenario 1a*, agricultural output increases across regions from 4.15 percent in Ontario to 1.91 percent in Canada East (Table 7a). This is the result of reduced competition from imports from the Rest of the World and an increased demand for agricultural exports in the USA. In the sectors of food, textiles and clothing, output decreases as local producers face increased competition from imported goods. The biggest decline is experienced in Ontario's food production, by 7.30 percent.

The only substantive difference in *scenario 1b* is again relevant to the agricultural sector: agricultural output increases by less in *scenario b*, as local producers do not benefit from the tariff protection from the Rest of the World afforded to them in *scenario 1a* (Table 7b).

| TABLE 7a  |             |         |             |       |       |
|---|-------------|---------|-------------|-------|-------|
| Impact of a Canada-USA Customs Union on Sectoral Output |             |         |             |       |       |
| (Percentage change over the base case)                  |             |         |             |       |       |
| Scenario a: CET is set to USA MFN rates.                |             |         |             |       |       |
|   | Canada East | Ontario | Canada West | USA   | ROW   |
| Agriculture and Forestry                                | 1.91        | 4.15    | 2.43        | 0.04  | -0.61 |
| Food, Beverages and Tobacco                             | -4.13       | -7.30   | -4.81       | 0.52  | 0.68  |
| Textiles  | -2.76       | -1.80   | -1.49       | -0.13 | 0.17  |
| Clothing  | -6.39       | -5.76   | -5.88       | -0.04 | 0.24  |

| TABLE 7b   |             |         |             |       |      |
|--|-------------|---------|-------------|-------|------|
| Impact of a Canada-USA Customs Union on Sectoral Output        |             |         |             |       |      |
| (Percentage change over the base case)                         |             |         |             |       |      |
| Scenario b: CET is set to the minimum of Canada-USA MFN rates. |             |         |             |       |      |
|  | Canada East | Ontario | Canada West | USA   | ROW  |
| Agriculture and Forestry                                       | 0.22        | 0.73    | 1.31        | -2.31 | 8.82 |
| Food, Beverages and Tobacco                                    | -3.89       | -7.16   | -4.89       | 0.81  | 0.37 |
| Textiles   | -2.53       | -1.47   | -1.21       | 0.06  | 0.08 |
| Clothing   | -6.21       | -5.42   | -5.62       | 0.16  | 0.10 |