income will still benefit from the drop in prices as a result of the dismantling of non-tariff barriers, and the decreases in domestic producer prices in response to the removal of both tariffs and non-tariff barriers.

Table 4

Loss in Revenue Due to Tariff Removal
(Millions of Dollars)

1988	558	1994	4092	2000	6127
1989	1201	1995	4344	2001	6477
1990	1899	1996	4618	2002	6842
1991	2706	1997	4950	2003	7295
1992	3611	1998	5237	2004	7777
1993	3845	1999	5732	2005	8317

2.7 Exchange Rate And Interest Rate Policies

We have assumed that past practices applied to the exchange rate will occur, and an endogenous, flexible exchange rate is assumed. Accordingly, the exchange rate reacts to Canadian real growth, relative inflation and interest rates in Canada and the United States, and the current account balance. We have also assumed that the Bank of Canada will follow an interest rate policy that keeps real interest rates at base case values.

2.8 Other Assumptions

It is possible that an enhanced trade agreement will alter current Auto Pact arrangements between Canada and the United States. Whether, or how, this might be implemented is problematical. Accordingly, we have assumed that the current Pact remains in force.