

countries indicated. A reduction in the time for resolution would be another indicator of improved "market access".

The resolution of the disputes can take many forms. Nevertheless, it is expected that the FTA will result in a more balanced process, implying that Canada will "lose" a smaller proportion of disputes.

3.2 Domestic Producer And Consumer Prices

3.2.1 Expected Effects -

A tariff is an indirect tax on imports. A tariff reduction should show up as a lower price for imported goods, measured at the point of purchase within Canada. This should be evident at the consumer level, and should reduce the input costs for those industries which use imported goods in their production process.

With lower import prices, the domestic producers of the same commodities or close substitutes will face increased competition. This should lead to some reduction in domestic prices as well.

U.S. tariff reductions on their imports from Canada (Canada's exports to the U.S.) may or may not affect Canadian domestic prices. If the U.S. market price for the particular commodity remains unchanged then the Canadian supplier will be able to raise the export price by the amount of the tariff reduction. At the same time, the domestic price for that commodity might also increase for Canadians since the option to export the commodity would determine the price. This kind of price behavior would be expected in those commodities in which Canada is a "price-taker" in international trade. It is most likely in areas in which we supply a small part of the U.S. market, where other countries export to the U.S., and the products tend to be homogeneous.

In the cases where the U.S. market price becomes lower as the result of the tariff removal, then the Canadian export price will remain unchanged, leading to an increased volume of exports. In the short run, the increased demand may put upward pressure on the Canadian price. In the longer run, it may offer the opportunity for economies of scale and lower prices.

3.2.2 Interview Opinions -

The focus should be on those commodities with large direct tariff reductions. Effects through lower input costs on materials entering the production process are not likely to be detectable. Both producer and consumer prices should be examined. It may be fruitful to compare the Canadian prices to U.S. prices in order to detect differences that can be attributed to the tariff changes.