

TABLE 4

Impact of a Canada-USA Customs Union on Bilateral Trade Flows
(Percentage change over the base case)

Scenario a: CET is set to USA MFN rates.

Exporters	Importers				
	Canada East	Ontario	Canada West	USA	ROW
Canada East	-0.82	-2.65	-2.24	3.66	1.07
Ontario	-1.56	-1.18	-1.62	2.61	0.88
Canada West	-2.03	-1.85	-0.74	3.53	0.79
USA	1.91	1.47	5.01	-0.04	0.11
ROW	5.55	4.08	5.23	-0.22	0.00

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

Canada East	-0.84	-2.62	-2.24	3.67	1.67
Ontario	-1.56	-1.20	-1.66	2.64	1.45
Canada West	-2.01	-1.85	-0.79	3.52	1.45
USA	1.91	1.49	4.98	-0.07	0.59
ROW	5.57	4.06	5.67	-0.02	-0.07

Sectoral trade effects

In terms of imports, the most obvious difference between the two CET scenarios is their relative impact on the sector of agriculture. Under *scenario 1a*, protection of this sector towards the Rest of the World actually increases. While this increase is compensated by the elimination of Canada-U.S. tariffs, the overall impact is a slight decrease in the international agricultural imports of all three Canadian regions, in the range of 0.24 to 1.89 percent (Table 5). In *scenario 1b*, tariff protection towards imports from the Rest of the World in the agricultural sector does not change in Canada, but it decreases by 75 percent in the U.S. As a result, across Canadian regions international imports of agricultural goods will rise, by a modest 9.27 percent in the case of Canada West, whereas agricultural imports in the U.S. will increase by a more impressive 37.49 percent (Table 6).

In both scenarios, the sector most impacted in Canada is food, whose tariff protection is reduced by 100 percent with respect to imports from the U.S., and by 65 percent with respect to imports from the Rest of the World. Subsequently, international imports of food rise by a spectacular 147.20 percent in the case of Canada West (*scenario 1b*)³⁸. The second most impacted sector in Canada as a whole is clothing whose tariff protection from imports from Rest of the World declines by 43 percent. Thus, in *scenario 1b*, our model estimates that

³⁸ The increase of international trade is of course compensated by a decrease in inter-Canadian regional trade, leading to smaller increases in total trade. Thus, in the case of Canada West, total imports of food (including imports from other Canadian regions) increase by 37.03 percent (tables of total sectoral trade impacts are available upon request).