# ANNEX B

## Illustration of Welfare Analysis Methodology: Canadian Sugar Policy

The following analysis of Canadian sugar policy in 1990 assumes Canada is a "small country", influenced by world (and U.S.) sugar prices but not influencing sugar prices. Four scenarios are considered:

1. An end to the modest Canadian tariff of C $22/ton so that Canada is a free market.

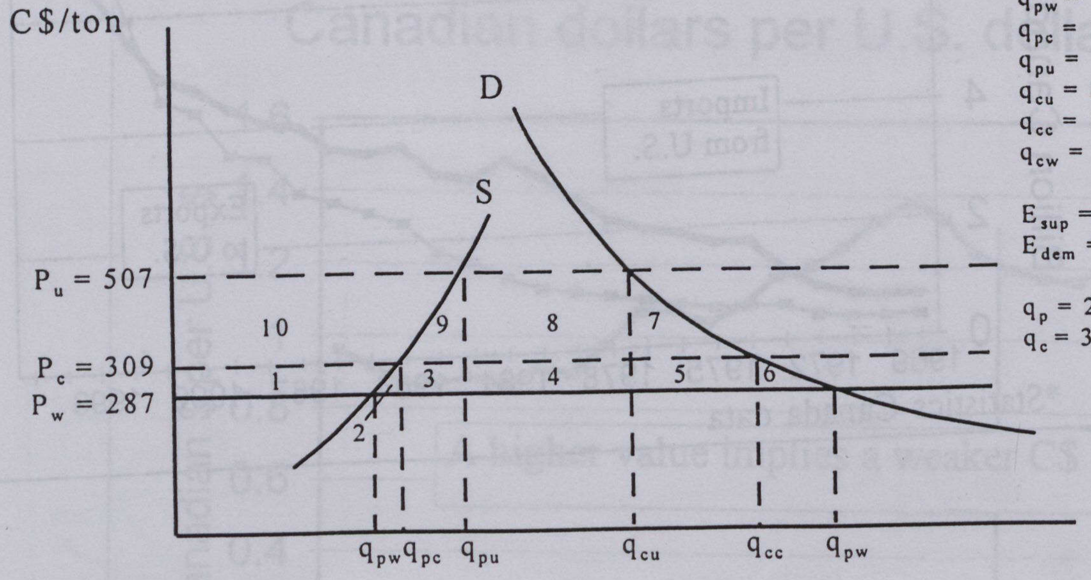
2. Canada adopts the U.S. support level of C $507/ton over and above its 1990 support rate of C $309/ton.

3. Canada adopts the U.S. support level of C $507/ton but measuring welfare above the world price of C $287/ton.

4. Canada and U.S. accept free market in sugar.

Basic data and supply-demand conditions are given below where $P_u$ is the U.S. support price, $P_c$ is the Canadian support price, and $P_w$ is the world price, all in Canadian dollars. The first subscript on quantities q refers to production p and consumption c and the second subscript refers to quantities at world (w), Canadian (c), and U.S. (u) prices.

**Annex Figure 2. Canadian Sugar (refined equivalent) Supply and Demand in 1990.**




$q_{pw}$ = 119,318 tons
$q_{pc}$ = 122,000
$q_{pu}$ = 141,592
$q_{cu}$ = 895,668
$q_{cc}$ = 1,009,000
$q_{cw}$ = 1,027,107

$E_{sup}$ = .3
$E_{dem}$ = -.24

$q_p = 21{,}846\ P^{.3}$
$q_c = 3{,}994{,}673 P^{-.24}$

Source: Quantities and prices (11, pp. 94, 95); elasticities (15)