imports of their inputs. In this respect, the study tends to underestimate the savings to consumers which will result from the Agreement.

Details of Calculations

(i) Empirical Application of Hypotheses 1 and 2

Hypothesis 1 has been applied by assuming that the equation in the Retail Price Mark-up section above, applies to all categories of consumer goods. Hypothesis 2 has been applied by reducing the estimates yielded under Hypothesis 1 by a factor reflecting the extent to which third countries (rather than the United States) exert the prime influence on the pricing of Canadian products. This factor has been calculated as the proportion of total customs duties accounted for by categories of goods in which duties collected on imports from the United States for a given category of goods has represented 50 per cent or more of the customs duties collected by Canada (see Table B.1).[1] The total duties collected in sectors of the economy in which Canada has been assumed to be a pure price taker were summed together. Expressed on an aggregated sectoral basis, the duties collected in all sectors in which U.S. dutiable imports were dominant, accounted for 64.5 per cent of the total duties collected (See Table B.1). (Conversely, the Rest-of-the-World is assumed to exert a greater influence on Canadian prices for 35.5 per cent of dutiable commodities.) The estimates compounding to Hypothesis 2 equal the estimates for Hypothesis 1 multiplied by that 64.5 per cent factor.

While it may appear to be an arbitrary assumption that Canada is a pure price taker in the former class of goods, it is equally arbitrary to assume U.S. landed prices have no effect on Canadian prices for the latter group. On balance, the derivation of the 64.5 per cent factor for Hypothesis 2 is reasonable but is arguably a lower end estimate.

(ii) Supply Management and Seasonal Tariffs on Agricultural Products

The consumer expenditure savings were calculated assuming that the prices in Canada for food products not subject to national supply management schemes have settled at the U.S. price plus the current tariff and transportation costs. The consumer savings on fresh fruit and vegetables presupposed that there would not be any "snapbacks" to Most Favoured Nation tariff levels, and that the savings to Canadian consumers would occur only on the portion of produce purchased during seasonal tariff periods. This analysis also assumed that no new products would be subject to import controls and that the import levels of food products already regulated by import quotas would not change from recent volumes. Subsequently, it was further assumed that prices in Canada for food products subject to national supply management would not change, and that the only consumer saving on these agricultural goods would correspond to the tariff reductions on the volume of imported product itself.

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1 Duty collected was similarly used to determine U.S. (versus the Rest-of-the-World's) influence on prices in Canada by T.Hazeldine in *Liberalized Trade Relations between Canada and the United States: The Consumer Interest, 1985.*