

With free trade, the United States increases exports of dairy products to Canada. The increased exports bring a small increase in milk prices in the U.S. and a large decline in milk prices in Canada, causing a downsizing of the Canadian dairy industry. The major beneficiaries of free trade are Canadian consumers and U.S. producers. The net welfare gain to both countries is positive, and totals a present value of nearly \$2 billion if discounted at 5% is perpetuity.

Eggs

The North American egg industry is much smaller than the dairy industry but distortions to trade are also quite large. We estimated the welfare impacts of free trade in eggs and egg products based on a study by Kim, Schrader, and Dimaranan (9). They used a static equilibrium simulation model to represent the egg industry in North America in 1988.

Estimated welfare gains from egg trade liberalization are:

	Annual benefits in:	
	United States	Canada
	(million dollars)	
Consumer welfare	-52	174
Producer welfare	53	-141
<u>Quota rents^a</u>	<u>0</u>	<u>-14</u>
National welfare	1	19

^aCanada is assumed to lose the rents associated with the import quotas.

As with the dairy example, the increase in exports to Canada has a very small upward impact on prices in the U.S. but a large drop in Canada. Because of the relatively small size of the industry, net welfare gains are small, but a significant redistribution of welfare from Canadian producers to Canadian consumers is implied.

Sugar

Estimated welfare gains from sugar trade liberalization are (see Annex B, scenario 4 for methodology, note conversion of Canadian to U.S. dollars at U.S. \$1 = C \$1.15):