

it is almost certain that an enhanced trade agreement would alter the location of the activities within industries, but no special information about such effects was available for this study, and the base case estimates of industrial location were used in the allocation of impacts.

1.2.3 Cases Reported - Given these models, standard macroeconomic techniques have been followed to estimate national impacts. A base case projection of Canadian economic activity is produced assuming that current bilateral and multilateral trade practices are maintained over 1985-2005. Alternative projections, based on varying assumptions about changed tariff and non-tariff barriers, the nature of Canadian production, and government tax policy are then simulated. The results of these projections are then compared to the base case to measure the impact of the changed conditions. The results provide a measure of direct, indirect and induced effects. The principal impact case has been allocated provincially.

The impact cases reported, and the main assumptions underlying each, are:

1. Tariff Impact (CASE I)- This assumes:

- \* a Canadian tariff reduction,
- \* a United States tariff reduction,
- \* where there is substantial competition from imports, Canadian producers lower their price to meet the competition,
- \* for price taking exports, Canadian producer prices rise to capture the full United States tax room vacated by the United States government,