this will have on imports from third countries. Reflecting this uncertainty, the consumer price impact is estimated under the two alternatives below:

Hypothesis 1

Given the role of the United States in the global economy, one might argue that the price of Canadian products tends to equal the price of the comparable U.S. product plus tariff (i.e. Canada is a price taker in the world market). Under these circumstances, the price decline for a Canadian product (as a result of tariff elimination under the Agreement) will equal the amount of the current tariff on a comparable U.S. product.

Hypothesis 2

For some product classes, imports from third countries currently exert a greater influence on the price of Canadian products than do imports of U.S. products. One might assume that this will continue to be the case following elimination of tariffs on U.S. imports. Under these circumstances the price decline will be determined by the extent of the U.S. influence on the price of goods currently imported into Canada as well as the current level of customs tariffs on these imports.

(ii) Retail Price Mark-up

As discussed in Section 5, it has been assumed that savings resulting from the elimination of tariffs on U.S. imports will be passed on completely to Canadian consumers by the distributive trades. Accordingly, it has been assumed that the retail mark-up in dollar terms will not change. (As a percentage of wholesale price, retail mark-up will increase because wholesale prices will decline with tariff elimination.)

Customs tariffs are not applied at the retail level of trade but rather at the import level which is analogous to the wholesale level for Canadian products.

On the basis of these considerations and those of section (i) above, for a product where U.S. imports are the prime foreign competition for Canadian manufacturers:

$ price decline = (current retail price – retail mark-up) × Tariff/1 + Tariff

(iii) Shelter

In considering consumer expenditures for shelter, account must be taken of differences between the Canadian market for housing and markets for other consumer goods and services. Whereas products like food are rapidly consumed and replaced by new production, Canadians rely overwhelmingly on the existing stock of housing rather than housing constructed in the current period. In addition, many Canadians satisfy their housing requirements through rental rather than purchase.

The approach in this study to the estimation of consumer savings from bilateral tariff elimination has been applied to consumer expenditures on shelter.

(iv) Services

Apart from housing, the estimates made by this study do not include the savings to Canadian producers of consumer services resulting from the elimination of tariffs on the