consumers but also lead to efficiency gains. This is the expected result under the usual assumption that Canadian firms are international price takers.

Models based on the more realistic assumption of an upward sloping supply curve for imports show that the impact of a tariff cut on the domestic price is reduced because the tendency to supply more will be diluted by the increase in the supply price of imported goods at higher volumes.[25] In such cases, a perfectly colluding Canadian industry matching one for one the Canadian market price of imports will end up not reducing their price by the full amount of any tariff cut.[26]

Nevertheless, "there is support in the literature for the proposition that the tariff does affect domestic output price and that it tends to do so especially in the highly concentrated industries as predicted by the Eastman-Stykolt model".[27]

Available empirical evidence suggests that import competition in Canada has increased significantly over the last ten years. Canadian manufacturers' overall domestic market share decreased from 66.8% in 1981-83 to 60.7% in 1985-87 and 59.3% in 1989-91.[28] This drop in market share is reported in the majority of manufacturing sectors: 19 out of 22. Not surprisingly, the United States increased its share of the Canadian market in 19 out of 22 industries over the period (i.e., in all manufacturing sectors except transportation equipment[29], tobacco, and beverages). Other countries' shares of the Canadian market also increased in 14 out of 22 industries.[30] Just under half the variability in Canadian propensities to import from the

[25] Over a similar distance, international trade is subject to more transport and handling costs than domestic trade. This is because more domestic transport, wholesaling and retailing services are required when the producer and the consumer are not in the same country. These costs act as natural barriers to international trade. See Donald J. Roussland and Theodore To, "Domestic Trade and Transportation Costs as Barriers to International Trade", Canadian Journal of Economics, XXVI, No. 1, February 1993, pp. 208-221.

[26] A model with imports as a fringe has been developed whereby a tariff cut could induce domestic oligopolists to increase prices. This "perverse" result, recognized as such by the author, is partially dependent, moreover, on the particular assumption that the tariffs involved are specific and not ad valorem. See Thomas W. Ross, "Movements Towards Free Trade and Domestic Market Performance with Imperfect Competition", Canadian Journal of Economics, August 1988, pp. 507-524.

[27] Tim Hazledine, op cit, in Khemani and Stanbury, supra, note 4, p. 57.

[28] The statistics in this section are drawn from Trade Patterns: Canada-United States: The Manufacturing Industries 1981-1991, Statistics Canada, 1993, and are only available for the periods indicated above. It should be noted, as well, that over the period 1981-83 to 1989-91, Canadian manufacturers' share of the much larger US market increased from 1.9% to 2.6%.

[29] Which already benefited from virtual free trade under the 1965 Auto Pact and which accounts for the majority (60% by value) of intra-firm trade between Canada and the United States.

[30] And were unchanged in two industries. Part of the increase in shares is probably a reflection of the full phasing-in of tariff reductions agreed to during the GATT Tokyo Round in the 1970s.