The combined effects of high concentration and tariffs acted as barriers to entry, possibly encouraging oligopolistic coordination among incumbent firms possessing significant market power.[21] At the same time, limited market size, transportation costs, and potential or actual oligopolistic rivalry was seen to impose constraints on plants achieving minimum efficient scales of operation.

Canada's competitive environment is changing, however, partially as a result of the same globalization forces affecting all countries, but, just as importantly, because of the implementation of the Canada-United States Free Trade Agreement which will eliminate almost all tariffs and many non-tariff barriers between the two countries by January 1, 1998.[22]

A good body of theoretical and empirical evidence exists to indicate that substantive competition concerns related to Canadian market structure will be lessened by freer trade. Studies of trade liberalization have shown that gains from trade are greater when domestic markets are assumed to be imperfectly competitive.[23] This is because, in addition to the usual gains from trade, the domestic economy benefits from the increased efficiency brought about by foreign competition and because opportunities for collusive behaviour in concentrated domestic industries are fewer. Where collusive behaviour exists, the free trade agreement, by lowering barriers to entry, will make such collusive behaviour more difficult.

The Eastman-Stykolt model[24], for example, has Canadian oligopolists setting the price of a homogeneous product at or just below the world price inclusive of the tariff so that imports are excluded from the domestic market. In this case, domestic prices fall by the full amount of the tariff cut because of perfect collusion and because the supply of imports is perfectly elastic. The lower prices are not just transfers to

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[21] In a review of eight merger cases between 1987 and 1990, Paul S. Crampton found that the tariff was the key factor in creating separate relevant markets in four cases (with the threat of anti-dumping duties as an aggravating factor in two cases). In two cases, market segmentation was maintained by government regulations (beer, energy). In one case (salted snacks), the market was segmented by high transportation costs. In the final case, competition concerns persisted despite the inclusion of eight U.S.-based firms in the relevant market. See Paul S. Crampton, "Relevant Market Analysis in Recent Merger Branch Decisions", in Khemani and Stanbury, supra, note 4, pp. 205-223.

[22] The FTA (and the future NAFTA) stands out as the central pillar of (hands-off) industrial policy in Canada, all the stronger because it is imbedded in an international treaty.

[23] Robert E. Baldwin, "Are Economists' Traditional Trade Policy Views Still Valid?", Journal of Economic Literature, Vol XXX (June 1992), p. 822.

[24] The discussion in this section is largely taken from Tim Hazledine, "Trade Policy as Competition Policy", in Khemani and Stanbury, supra, note 4, pp. 45-60.