



**NORTH AMERICAN SECURITY
AND PROSPERITY INITIATIVE**

NEW FRONTIERS

**BUILDING A 21ST CENTURY
CANADA-UNITED STATES PARTNERSHIP
IN NORTH AMERICA**



**A discussion paper of the
Canadian Council of Chief Executives**

April 2004





NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

TABLE OF CONTENTS

PREFACE ii

INTRODUCTION AND OVERVIEW..... 1

THE NEED FOR A COMPREHENSIVE STRATEGY..... 4

ELEMENTS OF A COMPREHENSIVE STRATEGY..... 6

1. Reinventing borders..... 6

2. Maximizing regulatory efficiencies..... 9

3. Ensuring resource security..... 10

4. Reinvigorating the North American defence alliance..... 13

5. Developing 21st Century institutions 18

EXECUTING A COMPREHENSIVE STRATEGY..... 20

RECOMMENDATIONS..... 26

CONCLUSION..... 30

APPENDIX I: CANADIAN COUNCIL OF CHIEF EXECUTIVES..... 32



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

PREFACE

As the heads of leading Canadian enterprises, the members of the *Canadian Council of Chief Executives* are committed to the support of sound public policy that will strengthen Canada's economy and society. In this context, the way Canada manages its relationships within North America will have a profound impact on our country's future security and prosperity.

The Council was the private sector leader in the development and promotion of the Canada-United States Free Trade Agreement during the 1980s and of the subsequent trilateral North American Free Trade Agreement. North American economic integration is now well advanced and irreversible, and in the face of global terrorism, the economic and physical security of the continent have become indivisible.

While the Council's fundamental vision for North America remains trilateral, we believe that to be most effective in addressing some of the key challenges facing our continent today, Canada and the United States must take the lead in developing a new paradigm for cooperation, one that will increase the security of our respective citizens and maximize the ability of our countries to prosper in a world marked by increasingly intense competition among developed and developing countries. Given ever-growing international flows of goods, services, people, investment and ideas, this new paradigm must be based on respect for sovereignty while achieving more effective and mutually beneficial interdependence.

Following more than a year of research and consultation with academics, business leaders and government officials in Canada, the United States and Mexico, we are ready to share some of our thinking. Many important questions remain to be answered, but we hope that the 15 specific recommendations we offer in this discussion paper serve as a point of departure for debate within Canada and the United States and as a spur to action on the critical issues that we have identified.

On behalf of the members of the Council, we are grateful to our readers for your interest in the shared challenges facing Canadians and our North American partners. We look forward to your thoughts and to working with you to ensure growing security and prosperity for all North Americans.

Richard L. George
Chairman

Thomas P. d'Aquino
President and Chief Executive



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

INTRODUCTION AND OVERVIEW

In January 2003, the *Canadian Council of Chief Executives* (CCCE) launched a major project to develop a strategy for shaping Canada's future within North America and beyond. Composed of the chief executive officers of 150 leading Canadian enterprises, the CCCE is dedicated to building a stronger Canada, and believes that Canada's best path to growth is through openness to the world.

While Canadians enthusiastically do business in every corner of the globe, geography alone means that our economic strength always will depend disproportionately on North America. This is why the CCCE championed the idea of a comprehensive free trade agreement with the United States in the 1980s and subsequently the North American Free Trade Agreement (NAFTA). The economic success that has flowed from these two initiatives on its own is persuasive evidence that we should continue to build on their foundation.

The increasingly open flows of trade, of investment, of people and above all of ideas have revolutionized our world -- how students learn, how consumers shop, how citizens participate, how communities work together, how businesses grow and how countries prosper. As emerging economies such as China, India and Brazil move up the development curve, they are growing in importance both as customers and as fierce competitors in the service as well as manufacturing sectors.

Developing a winning strategy in this competitive global environment has been a major preoccupation of governments across the

industrialized world. As in the 1990s, one response has been a disturbing revival of short-sighted protectionist reflexes. Even as they cope with such pressures domestically, though, governments have been struggling to ensure that the benefits of economic integration spread to every corner of the world.

Too many people in too many countries still live in abject poverty, and as United Nations Secretary General Kofi Annan has observed, the problem for them is not too much globalization, but too little of it. Spreading hope and building a better future for the world's poor depends absolutely on a commitment to openness.

An open world, however, also is a vulnerable world. Global conflict is no longer limited to the clash of armies, nor has it remained the exclusive domain of nation states. This fact was driven home brutally by the terrorist attacks of September 11, 2001. But in countries around the world, regardless of their wealth or poverty, ethnicity, religion or political structure, it has become clear that terrorism knows no boundaries. No one anywhere in the world can feel immune from either the commonplace threat of bombs and bullets or the lurking menace of possible chemical, biological or even nuclear attacks.

In such a world, Canadians must think hard about what we will need to do to defend ourselves. But as global citizens, we also must continue to think about how we can contribute effectively to peace and security around the world. The way that we and other countries respond to the relentless threat of terrorism and



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

rogue states has vital implications for global economic growth just as it does for Canada's future both as a trade-dependent economy and an immigrant-based society. In short, for Canada and for the world as a whole, economic security and physical security have become inseparable.

While this dual challenge is global, there is no escaping the fact that for Canada, our relationships within North America will be pivotal to any strategy we may adopt. And within North America, it is vital for Canada's vision and strategy to encompass both of our NAFTA partners, the United States and Mexico.

The economic competitiveness of all three countries will be enhanced if we continue to build on the success of the NAFTA. The security of Canadians, Americans and Mexicans alike will be increased if all three countries work together more effectively to defend our continent. And whether discussions on specific issues proceed bilaterally or trilaterally in the short term, initiatives that involve both Canada and Mexico are more likely to be able to attract broad political interest and support in the United States.

Within the context of this continental vision and imperative, this paper focuses on issues that need to be addressed urgently within Canada's relationship with the United States. The United States is at once a neighbour sharing a border stretching for thousands of kilometres, the trading partner that accounts for the vast majority of our imports and exports, our closest military ally and the world's dominant superpower. Based on the overarching imperative that Canada must affirm a vibrant independence and distinct personality in North

America and the world, we now must integrate our plans for achieving economic advantage with a strategy for assuring the security both of our own borders and of the continent as a whole.

In launching its *North American Security and Prosperity Initiative* (NASPI), the CCCE suggested that a Canadian strategy for managing its future within the continent should be based on five pillars: *reinventing borders; regulatory efficiency; resource security; the North American defence alliance; and new institutions.*

Over the past year, there has been an explosion of research and discussion about options for North America. The intensity of the discussion has been greatest in Canada, but it has spread into both the United States and Mexico, across academic, business and government circles. There is clearly much more to be explored, tested and eventually negotiated, but the immense amount of work done over the past year has established a meaningful foundation for more detailed discussion of our options.

While 2004 will bring elections in both Canada and the United States, political interest in new approaches to North America crosses partisan boundaries. Prime Minister Paul Martin has made clear his intention to reinvigorate Canada's relationship with the United States as part of a broader strategy for strengthening Canada's influence in the world. Stephen Harper, the new leader of the Conservative Party of Canada, has called for a continental "strategic partnership", one that would link freer flows of goods, services, labour, capital and technology with improvements in continental security.

Based on all of the work by the CCCE and by many others, this discussion paper builds on the



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

original framework of the CCCE's North American initiative, suggests points of emerging consensus and puts forward 15 specific recommendations. From here, the CCCE hopes

to foster further dialogue on the best options for Canada and on how best to move forward in building a 21st century Canada-United States partnership in North America.



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

THE NEED FOR A COMPREHENSIVE STRATEGY

The optimal scale of the next stage in reshaping Canada's relationship with the United States has been perhaps the most vigorously debated thread of academic and political discussions in recent months. Too often, however, this discussion has been reduced to a misleading choice, that between a "big idea" and a purely incremental approach.

Some of the incrementalists, such as the Conference Board of Canada, simply prefer to avoid large negotiating processes, addressing each issue in isolation on its own merits. Others, such as Robert Wolfe of Queen's University, argue that big ideas necessarily lead to big overarching agreements and huge centralized institutions, which he does not think we need. Instead, he favours a more "pluralistic" approach to managing Canada's North American relationships.

Most influential thinkers in both Canada and the United States, however, argue that an ambitious and comprehensive approach is necessary to serve Canada's interests. They put forward four compelling arguments.

First, because anything that is done in one area has an impact on what can and must be done in others, it makes no sense to allow negotiations to proceed on a piecemeal basis without regard to how short-term incremental objectives on particular issues either relate to other policy files or influence Canada's broader interests. Even if negotiations proceed incrementally, Canada must have a unified set of strategic goals and a means of coordinating its negotiating efforts.

Second, only a broad set of negotiations provides enough room to discuss mutually beneficial trade-offs that could not be considered within the confines of negotiations limited to specific topics.

Third, management of the Canada-United States relationship can be characterized as ad hoc. Unless the two countries agree on a more systematic approach, Canada risks being blindsided by the eruption of major problems at the political level that could and should have been dealt with quietly at an earlier stage.

Fourth, only an exciting and ambitious proposal can attract attention and mobilize political leadership in the United States. As former Canadian ambassador to the United States Allan Gotlieb has put it: "For any initiative to succeed, it must meet a number of conditions. It must be bold, it must come from Canada and be espoused at the highest level. It must be comprehensive so as to allow trade-offs and broad constituencies to come into play. It must address the U.S. agenda as well as ours. Incrementalism won't work."

Over the past two years, Canada has taken some significant steps to strengthen its institutional links with the United States. Some, such as the decision to open seven new consulates, upgrade two consulates and appoint 20 honorary consuls in the United States, have been unilateral. Others, such as the *Smart Border Declaration*, have been negotiated.

Indeed, the sheer number and breadth of discussions and initiatives underway has led



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

some commentators to suggest that Canada's current approach constitutes a happy middle ground, characterized by terms such as "aggressive incrementalism" or "comprehensive incrementalism". As important as Canada's many actions have been in helping our country to manage the economic and security challenges Canada faces in the near term, such incremental measures even taken as a whole do not constitute a strategy.

The CCCE clearly is putting forward a proposal that is both comprehensive and ambitious, one that has led others to declare us firmly in the camp of the big idea. But we also have maintained from the beginning that the goal of our strategy is not a single big agreement leading to big new supranational institutions.

As Michael Hart of the Norman Paterson School of International Affairs at Carleton University has pointed out in a major paper prepared for the CCCE in 2003, Canada and the United States already work together through a vast network of formal and informal ties, and the key issue is how and where to strengthen this network. This vision of a dynamic and flexible approach is quite consistent with the pluralistic preferences of "big idea" critics like Wolfe. And as Tom

Courchene of Queen's University has observed, it also is consistent with the historic approach that Canada, the United States and Mexico pursued in shaping the NAFTA.

Canada's record suggests strongly that it pays to be bold. The principal impetus for the Canada-United States Free Trade Agreement came from Canada. More broadly, our country has been present at the creation of numerous multilateral agreements and institutions. We did not hesitate to take leading roles in developing and advancing bold multilateral initiatives both because it was in our direct interest to do so and because such leadership enhanced our reputation, influence and impact on global affairs and human development.

The CCCE fully agrees that Canada does not need to pursue a single monster set of negotiations with the United States that would lead to a major new treaty that in turn would be implemented by centralized institutions. What Canada does need is a bold vision and a unified strategy that will ensure our continued economic competitiveness and growth at the same time as it enhances our physical security in a dangerous world.



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

ELEMENTS OF A COMPREHENSIVE STRATEGY

Ever since September 11, 2001, there has been no question that the management of the Canada-United States border must evolve. The two countries quickly agreed on the 30-point Smart Border action plan in late 2001, and much has been and continues to be achieved under this umbrella. Our two countries have been working closely, sharing information, developing and deploying new tools for managing risk, expanding border infrastructure and experimenting with new ways to speed the flows of low-risk goods and travellers while improving security overall.

As the CCCE suggested in launching its North American initiative, however, much more can and must be done. The CCCE continues to believe that a comprehensive strategy must encompass five pillars:

- *First*, it must move beyond border management to the true reinvention of North American borders.

- *Second*, efforts to smooth customs processing must be reinforced by a sweeping effort to reduce the costs and delays at the border caused by regulatory differences.
- *Third*, and linked to regulatory issues, it must address issues in the resource sector to ensure that trade flows respect the twin principles of security of access and security of supply.
- *Fourth*, it must recognize that all of the progress Canada desires on the economic front depends on a credible reinvigoration of the North American defence alliance.
- *Fifth*, it must consider the development of a range of new institutions to manage the deepening of the Canada-United States relationship.

1. REINVENTING BORDERS

The goal of reinventing borders is not to make the Canada-United States border disappear. No matter how integrated our economies may grow, there always will be a need for some form of controls to prevent the illegal movement of people and illicit trade in products such as firearms and drugs. But on the other hand, both countries share the goals of improving security and speeding legitimate flows of goods and people. Furthermore, these goals have the strong support of the business communities of both countries. The challenge is shared, and so must be solutions that work.

A smarter border is one that eliminates unnecessary work and shifts other activities away from the border. This both reduces costs and delays for individuals and businesses and allows governments to focus their border resources on what matters most: protecting our countries against global threats at the approaches to North America while transforming internal border crossings into effective shared checkpoints that focus on necessary security while speeding the flow of both people and goods.



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

Achieving such an outcome will require new ideas, new approaches and new technologies. One of the most important changes in approach to emerge in the wake of the September 11, 2001 terrorist attacks involves the use of shared intelligence and analytical tools to sort higher-risk goods and people from the bulk of low-risk traffic, enabling security officials to focus their efforts more effectively on real risks while speeding the flows of low-risk travellers and cargoes.

This approach will require continued strengthening of information sharing and dialogue among officials on both sides of the border. Experiments such as Fast and Secure Trade (FAST) lanes for trucks and NEXUS for frequent travellers by air and land show that they can be effective risk management tools that reduce border delays for those who participate. But the early experience with such programs has highlighted the need for adequate training, so that customs and immigration officials understand, trust and make full use of the technology involved.

Programs such as FAST and NEXUS are based on voluntary applications for special biometric identification cards that give their holders access to preferred lanes and speedier processing. As part of its initial North American strategy, the CCCE suggested that this concept be expanded to create a single biometric identification card that would be accepted by both countries, but still one that would be offered on a voluntary basis.

There has been some discussion of the potential merits of a compulsory national identification card, and in the long term this may prove preferable to the proliferation of biometric identifiers and databases across a wide range of different documents. Many other countries around the world are moving well ahead of Canada in the

development and use of biometric identification, but for the moment, expanding the voluntary approach remains the most realistic option.

Moving beyond the limits of the Smart Border action plan, a number of commentators have raised the possibility of a bilateral or even trilateral agreement on common screening of visitors from beyond North America at their first point of entry to the continent. Others, notably Wendy Dobson of the University of Toronto and Gary Hufbauer of the Institute for International Economics in Washington, D.C., have suggested broadening the NAFTA visa system, including introduction of a NAFTA retirement visa, as a possible avenue for improving the mobility of Canadians, Americans and Mexicans within the continent.

It is important to emphasize that neither negotiations on labour mobility nor agreement on new border controls affecting temporary movement of people would affect Canada's ability to pursue its own policies with respect to the admittance of regular immigrants or refugee claimants. What is necessary from the point of view of border management is mutual confidence in the ability of our respective immigration control processes to handle security risks appropriately.

Another important element of border management relates to border infrastructure. Even without security delays, the volume of traffic crossing major border points threatens to overwhelm the capacity of existing approaches and inspection lanes. As participation in experimental projects such as FAST and NEXUS expands, it will be vital to ensure that there are enough preferred lanes to deliver on the promise of rapid processing.

Some excellent steps, including new truck inspection lanes, vehicle and cargo inspection



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

machines, information exchanges, networking opportunities through cross-border forums and sharing of resources through newly established Integrated Border Enforcement Teams (IBETs), already have been taken. The same creativity needs to be applied to congestion challenges that were present at key border points even before September 11, 2001. Border infrastructure is simply not keeping pace with the degree of integration between the three NAFTA partners. Even Mexico-United States infrastructure challenges have an impact on Canadian business. For example, a significant volume of auto parts leaves Mexico for transport through the United States to Canada for assembly. There have been calls for a national, provincial and municipal joint border infrastructure plan within Canada, but such efforts need to be coordinated with United States and Mexican interests as well.

There certainly is a need to maintain the momentum established by the Smart Border Declaration, and to implement, refine, expand and build on its action plan for improving border management. But as Michael Hart of Carleton University argued persuasively in the paper he prepared for the CCCE, the reinvention of borders must go well beyond their day-to-day management. To make sure that governments can focus their resources and people on the imperative of security, it also makes sense to look at how to reduce other functions and costs at the border.

A number of commentators have suggested in particular that Canada aim for a common external tariff with the United States. Where Canada and the United States charge different rates of duty, the country with a higher rate on a given product must ensure that the other is not being used as a conduit for goods from third countries. If this difference is eliminated, the country of origin ceases to matter

once goods have been accepted in either country. This leads to real savings of time and money in administering the Canada-United States border, and the less time, energy and money that governments spend on enforcing tariffs and rules of origin, the more that they can focus on improving security.

As Hart pointed out, Canada's current tariff schedule has 6,821 industrial tariff lines, while the more detailed United States code has 8,445. On about 3,000 tariff lines, both countries already charge no duty. For some 40 percent of the remaining categories, the difference in tariff rates is less than two percentage points. For most goods, in short, it is clearly feasible to reach a common tariff, preferably at the lower of the two current rates. Jeffrey Schott of the Institute for International Economics in Washington, D.C., thinks that by the end of the decade, it may even be plausible to aim for a common external tariff for all three NAFTA countries on a wide range of goods.

That said, the relatively few items where there are big gaps in duty rates are highly political, most notably in agricultural products and to a lesser extent in textiles. It may be unrealistic to hope for rapid progress toward a common external tariff on all products. A formal customs union, in other words, is yet a long way off.

On the other hand, there is nothing to stop Canada and the United States from achieving the benefits of a common external tariff sector by sector. Agricultural trade is a political morass in every major industrialized country, but the seemingly intractable problems in this area need not stop Canada and the United States from making some real and important progress in harmonizing tariffs on industrial products.



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

Just eliminating the need for rules of origin on large slices of the tariff schedule would cut down the time and cost of border administration and increase predictability in the exchange of these goods for investors and exporters. As suggested by Danielle Goldfarb at the C. D. Howe Institute, rules of origin “dilute the economic gains from free trade” and act as a tax on cross-border transactions. Estimates of rules of origin administration costs using a variety of methods range from 0.5 percent to 5.7 percent of the value of exports. Applied to Canadian exports to the United States, this suggests potential annual benefits ranging from C\$2 billion to C\$18 billion.

While more work is required to quantify the potential benefits of such a course in North America, it already is clear that some firms prefer to pay regular multilateral tariffs rather than seek duty-free access under the NAFTA rules that require proof of origin. This alone shows that eliminating the need for rules of origin in bilateral and trilateral trade would have significant benefits. Recognizing these potential benefits, the Canadian departments of International Trade and Finance recently invited comments on the harmonization of Most Favoured Nation tariffs with the United States and Mexico, and on the liberalization of rules of origin under the NAFTA.

2. *MAXIMIZING REGULATORY EFFICIENCIES*

Most of the administrative costs and delays at the border come not from the need to assess customs duties, but from myriad rules and regulations that are simply convenient for governments to handle at the border. Particularly to the extent that security concerns are adding to the tasks of border officials, it is vital to whittle down the border’s regulatory burden.

Canada and the United States tend to have very similar regulatory goals, such as protecting health and safety. Working independently, we often have come up with regulations that are different, but only in minor ways. We need to ask how many of these differences are really important, what can be done to eliminate their impact on border administration and how much of the remaining administrative burden can be handled more efficiently in other ways, preferably away from the border.

The potential cost savings at the border make regulatory convergence desirable. The degree of

integration between the Canada and United States markets is quickly making it imperative. The discovery of a single case of Bovine Spongiform Encephalopathy (BSE) in Alberta and more recently a second case in the United States with links to Alberta demonstrates the need for coherent North American regulation of highly integrated industries. The impact of the BSE discoveries suggests strongly that fragmented regulatory systems are failing to keep pace with the integrated reality of today’s North American business environment.

The need to reduce regulatory barriers is not limited to business. In 2003, for instance, Canadian doctors encountered a frustrating series of delays involving licensing and insurance when they volunteered to move between provinces to help fight the spread of Severe Acute Respiratory Syndrome (SARS). Diseases respect no borders, and the SARS experience provides a pointed lesson on the need for Canada and the United States to work together and ensure that



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

incompatible or unnecessary regulations inhibit neither the regular flow of commerce nor our countries' ability to respond to continental emergencies.

Removing regulatory differences should not undermine regulatory standards. Indeed, the impact is likely to be quite the opposite. Recent polling by Ekos Research, for instance, found that both Canadians and Americans support the idea of harmonizing environmental standards because they believe that this process will lead to the adoption in both countries of the higher standard. Across the continent, there is broad public confidence that regulatory convergence would lead to a race to the top in terms of product safety, air and water quality and waste management.

There are several options Canada can pursue in seeking to reduce or eliminate regulatory costs and

inefficiencies: outright harmonization; mutual recognition; acceptance of the "tested once" principle; convergence of product and process standards; and cooperative enforcement.

Which option is most appropriate will probably be determined sector by sector and may not require an overarching agreement. Some agreed top-down instruction from governments would give officials both a sense of direction and urgency, but as Tom Courchene of Queen's University has pointed out, the regulatory reform process is both complex and continuous. Both within North America and globally, this process is being driven not only by governments, but also by international technical committees, by international regulatory agencies and institutions and by trade associations and international businesses working together.

3. ENSURING RESOURCE SECURITY

Resource products such as softwood lumber, wheat, sugar, fish and other agricultural products have been the flashpoints for most of the highly visible trade disputes between Canada and the United States in recent years. Exemption from United States trade remedies such as anti-dumping and countervail duties was perhaps the most significant objective Canada failed to win during both the Canada-United States and North American free trade agreements, and there is every indication that politicians in the United States will continue to guard their prerogatives fiercely.

On the other hand, the war on terrorism has changed perceptions in the United States about the importance of energy security. The creation

of the North American Energy Working Group in 2001 provided one concrete indication of its desire to work toward a unified continental energy market and to address in particular regulatory barriers to achieve this goal. United States Ambassador to Canada Paul Cellucci put it quite simply in a December 2003 speech when he suggested that the time had come "to complete the integration of our energy markets".

Canada and the United States already are committed to efficient energy markets, open investment and free trade in this sector, principles that have served both countries well. But neither Canadians nor Americans fully appreciate the extent of Canada's role as energy supplier to the continent. Only two in ten



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

Americans and fewer than three in ten Canadians even realize that Canada is the number one supplier of energy to the United States, providing 33 percent of its total energy imports, 94 percent of its natural gas imports, 100 percent of its electricity imports and more oil than Saudi Arabia.

As Ipsos-Reid found in a recent poll on behalf of the Canada Institute of the Woodrow Wilson Center for International Scholars, Canadians and Americans fear a looming energy crunch: two thirds or more of those surveyed in both countries are worried they will face shortages of both electricity and gasoline. They have reason to be worried. Demand globally is expanding as major developing countries such as China, India and Brazil move rapidly up the development curve and consume dramatically more energy for both industrial and individual purposes. The International Energy Agency estimates that some C\$16 trillion in new energy investment will be needed globally between now and 2030 in order to expand supply to meet this growing demand and replace existing sources as they are exhausted.

In this context, Canada needs to develop a comprehensive energy strategy. This strategy must have three goals. First, it must ensure the timely development of the energy supply needed to provide a high quality of life to Canadians and to foster a competitive base for Canadian enterprises in all sectors. Secondly, it must reinforce the role of the energy sector as a source of well paying jobs and of Northern and Aboriginal development by building on Canada's competitive advantage as a secure supplier of energy to the United States. Finally, it must mesh this expansion of energy supply with environmental goals including the

improvement of air and water quality and the global control of greenhouse gas emissions.

There are a number of pressing issues in the energy sector that need to be addressed to assure reliable, affordable energy supplies within Canada and the United States. Some of the pressing issues include the rate of growth of energy demand; energy demand in the face of multiple environmental objectives; constraints on the introduction of new energy supply and infrastructure because of uncertain and less than timely regulatory processes; jurisdictional overlap; growing consumer resistance to higher energy costs; and the link between energy matters and other important policy areas.

Canada has a critical role to play in ensuring the energy security of the continent in three areas: the full development of Alberta's oil sands; the development of Mackenzie River and Arctic Coast natural gas reserves and the transportation of North Slope gas from Alaska through Canada; and the development of compatible rules on the regulation of electricity flows and infrastructure. As Jack Mintz, President of the C. D. Howe Institute, has recently pointed out, a continental energy pact would help to ensure that scarce investment dollars are directed to the most productive energy sources in each country.

The biggest challenge to be addressed in forging an energy strategy for Canada and for the continent lies in reducing regulatory obstacles. These obstacles constrain investment in traditional energy fields including oil and gas, hydroelectricity and nuclear power. The development of new technologies such as fuel cells and the expansion of renewable supplies such as wind, geothermal and tidal power must also be a part of Canada's energy strategy.



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

If Canada wishes to reinforce its role as a secure supplier of energy to North America and use this strength as a means for advancing its broader interests, regulatory reform at home is a vital first step. It is urgent for the federal and provincial governments to streamline the regulatory approval processes governing development of new energy supply and infrastructure to make decisions more timely and predictable. Continued jurisdictional overlaps and lengthy regulatory processes could easily frustrate Canada's ability to ensure a secure supply of energy even within Canada.

Similarly, regulatory issues lie at the heart of many of the most intractable trade disputes between Canada and the United States in other resource sectors. The idea of a comprehensive resource security pact, advanced by the CCCE as part of its North American strategy, is one way to link Canada's frustration in other resource sectors such as lumber with the strong desire of most Americans for greater energy security. The goal would be to establish firmly the commitment of Canada and the United States to the twin principles of security of supply and security of access across all resource products, not just energy.

The potential to link energy security to long-term resolution of key trade disputes in the resource sector also has been acknowledged in the political sphere. In proposing a continental energy strategy in 2003, Stephen Harper, now leader of the Conservative Party of Canada, said: "Americans can see clearly in this some mutual long-term interests. We need to broaden this understanding to a range of natural resources in order to prevent any future fiascos such as the debilitating quarrels over softwood lumber and agriculture."

Even in the absence of successful negotiation of a resource security pact, Canada can and should pursue a variety of avenues in its efforts to reduce the exposure of Canadian exporters to the repeated application of United States trade remedies.

- First, despite a low probability of success, Canada could make another attempt to negotiate a mutually satisfactory way of addressing problems that arise from allegations of predatory pricing and subsidization.
- Second, Canada could work toward common rules on competition in a North American context.
- Third, Canada can work to reduce regulatory differences and in the process eliminate some or all of the excuses used for trade action. This approach, which could include negotiation of common subsidy rules, repeatedly has been put forward by the United States as a means of resolving the longstanding dispute over softwood lumber.
- Fourth, the two countries could agree to eliminate access to trade remedies on a sectoral basis, starting with the many sectors in which there have been no disputes and gradually narrowing the field of trade remedies to an increasingly narrow and isolated set of goods. An alternative in this vein suggested by Jeffrey Schott of the Institute for International Economics is the "holiday" concept, the negotiation of sectoral exemptions from anti-dumping duties for a specified period of time as a



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

means of building confidence in the possibility of a permanent exemption.

- Fifth, the two countries could consider institutional arrangements to increase discipline in the application of the rules by each of the agencies administering trade remedies. Debra Steger, Executive in Residence with the Faculty of Law at the University of Ottawa, for instance, has suggested exploring the consolidation, strengthening and reform of the NAFTA institutions, including the idea of a common NAFTA Secretariat and a joint tribunal to deal with trade remedy disputes.

- Finally, Canada can continue to work with other countries to achieve greater discipline in the application of trade remedies by the United States at the multilateral level, through the World Trade Organization. This is probably the most viable approach in the agricultural sector.

Some of these avenues could be pursued simultaneously. They are not mutually exclusive. The most productive approach in the short term will be to reduce the demand for trade remedy action in the United States through sector specific strategies such as regulatory convergence while working toward longer-term solutions such as a permanent joint tribunal.

4. REINVIGORATING THE NORTH AMERICAN DEFENCE ALLIANCE

Since September 11, 2001, “security trumps trade” has become a political mantra in the United States. While Canada’s larger neighbour has compelling economic interests in keeping our shared border open for business, the priority it gives to matters of security is very real.

Any perception that security concerns in the United States could significantly disrupt the Canada-United States border in future affects Canada’s ability to attract business investment today. Most new investment from abroad is aimed at operations that must serve the North American market as a whole, if not beyond. Any loss of confidence in Canada’s access to the much larger United States market will have serious economic consequences.

To prevent such a loss of confidence, Canada must make it clear that it is both willing and able to defend its sovereign territory from external threats. The deterioration of Canada’s military capability over the past several decades has been relentless, and there now appears to be close to a consensus, within Canada and among our allies, that what we have left is sufficient neither for the protection of our own borders nor to make a meaningful and sustained contribution to North American and global security.

In 2003, the Senate Standing Committee on National Security and Defence concluded that neither Canada’s military nor its non-military forces such as the Coast Guard and Royal Canadian Mounted Police have sufficient resources or the right organization to assure the defence of our country’s own territory. An even



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

more pessimistic message was delivered in December 2003 by Douglas Bland, Chair of Defence Management Studies at Queen's University, who suggested that even immediate and substantial investment in new equipment would not be enough to replace the military's aging inventory before it wears out.

Studies prepared outside government have been similarly pessimistic about the current state of Canada's military and emphatic on the need for dramatic change. In a paper prepared during 2003 for the *Canadian Council of Chief Executives*, a team of leading academics headed by David Bercuson of the University of Calgary and working through the Canadian Defence and Foreign Affairs Institute made sweeping recommendations for defence policy and for expanded investment in Canada's military capability.

Discussion of Canada's security needs and capabilities cannot be limited to its armed forces. In both the domestic and North American context, Canada's organizations with security responsibilities must be able to work together efficiently as well as with their counterparts in the United States and beyond, a need recognized by Prime Minister Paul Martin's commitment to a national security strategy and creation of the new Department of Public Safety and Emergency Preparedness.

Canada's sovereign responsibilities do not stop at its own borders. Just as we take it for granted that the United States will protect Canada from incursions through its territory, we have an obligation to protect our continental allies from incursions through our territory. And from making war to keeping the peace, Canada

always has acknowledged a duty to contribute to global security.

Prime Minister Paul Martin has ordered a sweeping review of Canada's foreign policy, one that will encompass diplomacy, development and trade as well as defence. It is clear already, however, that defence policy will be a central issue within this review. As Minister of National Defence David Pratt said recently: "I can't emphasize strongly enough how important it is that we have a coherent and comprehensive defence plan to guide our decisions in future. With this plan, we'll be able to gain and maintain widespread public support for defence and we'll also be able to ensure that our top defence priorities are priorities for the government as well."

Regardless of how Canada organizes its defence and security efforts, it seems certain that achieving a capability sufficient to the tasks ahead will require a major infusion of new money. First, though, Canada needs to have a serious discussion about its priorities, about where our military forces in particular should excel, and by implication which of their historical tasks should be transformed to meet new and changing demands.

During the Cold War, Canada's focus was on contributing to the defence of Western Europe with tanks and infantry, protecting convoys across the Atlantic against submarine and air attack, and defending North American and European airspace. In a world characterized by other threats such as international terrorism, proliferation of weapons of mass destruction and ethnic cleansing, Canada needs to focus more of its efforts on asymmetric warfare, on the ability



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

to protect civilians and infrastructure at home or abroad from irregular forces or terrorists.

This shift in probable threats has a significant impact on both the equipment and training Canada's forces will need to carry out their duties effectively in future. The minimum requirements would appear to be for strategically mobile light infantry that is fully interoperable with allied forces within North America and abroad; protection of Canada's maritime approaches; surveillance and defence of North American airspace; and critical infrastructure protection and emergency response capability within Canada.

Even if Canada limits its ambitions to these core priorities, its military seems likely to require significant additional resources. A credible capability on the ground, for instance, might include: sufficient combat troops and support elements to maintain a battalion-level commitment anywhere in the world indefinitely and a brigade-level commitment anywhere in the world for up to one year; sole or joint ownership of strategic lift capability sufficient to move a battalion by air and a brigade by sea; and a much higher tempo of cutting-edge training for both conventional and asymmetric warfare, with an emphasis on interoperability with allied forces. Similarly, a credible ability to protect Canada's airspace and maritime approaches would require either new or upgraded combat and surveillance aircraft and more naval vessels or unmanned surveillance vehicles specifically tasked to coastal protection roles.

There is no doubt that Canadian participation in other defence-related activities would still be welcome, including blue-water naval forces capable both of integration with American or

North Atlantic Treaty Organization (NATO) task forces and of operating independently and far from home in arenas such as the Persian Gulf. But in recent months, the pace of discussion on defence issues has accelerated dramatically, and its thrust has shifted noticeably from wishful thinking to the pragmatic setting of priorities.

The most concrete example came in the autumn of 2003 with then Defence Minister John McCallum's announcement that Canada would forego replacing main battle tanks designed for conventional Cold War battles between massed armies with air-transportable light armoured gun systems more appropriate to the global missions Canada's military seems likely to take on in future.

Canadians have not yet reached consensus on how and to what extent our country's military should specialize in the years ahead. Much vigorous discussion is still to come both on Canada's overall foreign and defence policy priorities and on the best mix of people, equipment and training needed to address these priorities. There does appear to be consensus on three points:

- First, Canada needs a thorough and comprehensive review of its foreign and defence policies, one that sets clear priorities for the years ahead and provides for ongoing reviews at regular intervals.
- Second, these priorities will include the protection of domestic territory, infrastructure, maritime approaches and airspace as well as a credible capability to support Canada's foreign policy



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

objectives whether acting independently or through multilateral institutions or coalitions.

- Third, addressing these priorities will require both a significant net increase in Canada's overall defence spending and hard-headed reallocation of resources within the existing defence budget.

A clear defence policy, combined with a credible capacity to deliver on the objectives of this policy, is necessary both to fulfill a fundamental duty of the Canadian government to its own citizens and to be recognized as a valued partner and ally in defending North America and contributing to peace and security globally.

Within North America, we did our fair share in establishing the North American Aerospace Defence Command (NORAD) to defend the continent's airspace. We must continue to do our share moving forward.

The Canadian government recently decided in principle to participate in the proposed ballistic missile defence (BMD) of North America. This was an important extension of Canada's commitment to the defence of the continent that dates back to the 1940 Ogdensburg Agreement between Mackenzie King and Franklin Roosevelt. BMD is a land and sea-based missile interceptor system that would rely on existing satellite technology to alert NORAD of any missile launched against a North American target. Earth-based missiles would then be launched to destroy the incoming weapon(s). BMD would not involve the weaponization of space, and as Dwight N. Mason, Senior

Associate at the Center for Strategic and International Studies in Washington, D.C., has pointed out, arguments about whether Canada would be contributing to a new arms race are moot because the United States already has decided to proceed. In short, the BMD program is going ahead, and if Canada wishes to have any say in its future development, it is in our interest to be an active partner.

Terrorism and the proliferation of weapons of mass destruction are the most pressing dangers facing the world today. While it is vital for Canada to be strong and active in its diplomacy and development assistance, it clearly has a duty to do what it can to protect its citizens from such threats, and the most promising avenue at this time is to maintain its commitment to the land-based defence of North America from attack by airplanes and ballistic missiles.

More broadly, Canada and the United States should consider strengthening their joint efforts to secure the maritime as well as aerospace approaches to North America. NORAD, which integrates American and Canadian personnel into a single system, with command positions shared between the two countries and a commander reporting to both the Canadian prime minister and the United States president, has proven itself as an effective means of protecting North American airspace. Given the broader nature of the defence challenge facing our countries today, the best approach might be to expand NORAD's mandate and include land and sea as well as air forces within its structure. The two countries also should expand the cooperation that takes place through the Canada-United States binational planning group under the United States Northern Command (NORTHCOM).



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

The need for improved coordination on security goes well beyond military matters. As Prime Minister Paul Martin already has recognized, for instance, Canada needs an integrated security strategy to improve the ability of its military forces, Coast Guard, customs and immigration officials and police forces to work with their counterparts in the United States in continental defence and response to emergencies and disasters in either country. In addition, Canada's experience in 2003 with SARS has highlighted the urgency of proceeding with the development of an effective pan-Canadian equivalent of the Centers for Disease Control and Prevention in the United States, one capable of responding not only to future outbreaks of infectious diseases within Canada, but also of working seamlessly with its American counterpart in addressing health emergencies on a continental basis.

Globally, Canada has done its share and more in two world wars and in numerous missions under the direction of the United Nations, NATO and within other coalitions. Canada has contributed more troops to U.N. peacekeeping missions than any other country -- more than 125,000 since the U.N. first deployed peacekeepers in 1948. But if we are going to do our duty to ourselves and to Canadian values, we have to show the world that we are no longer a free rider on American coattails and a toothless advocate of soft power,

and instead are serious about being a true ally in the struggle for global peace and security.

If Canada is to continue to contribute meaningfully to global security missions, it must build and maintain the necessary military capabilities. Global reach continues to be in Canada's strategic interests and will preserve our ability to have influence on the world stage and to project force abroad. What is needed is greater depth in our forces to ensure that this capability can be sustained over the long term.

Whatever the defence and foreign policy priorities that Canada chooses to adopt in the course of its forthcoming review, a significant increase in resources will need to be matched by increased accountability and parliamentary scrutiny. As Douglas Bland and Roy Rempel argued in a recent paper for the Institute for Research on Public Policy: "The Canadian Forces consumes some C\$12 billion annually ... officials and officers may well determine the well being of Canada. These are the types of issues and policies that Parliament has a right and duty to oversee." In particular, the Standing Committee on National Defence and Veterans Affairs and the proposed new National Security Standing Committee will have important roles both in acting as champions for the military investments Canada needs and in ensuring that this money is well spent.



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

5. DEVELOPING 21ST CENTURY INSTITUTIONS

Michael Hart of Carleton University has pointed out that years of informal practice have established a rich network of cooperative arrangements between Canadian and United States officials. But the management of Canada's North American relationships is ad hoc compared with the extensive array of institutions to which Canada belongs at the multilateral level. As our North American relationships continue to deepen, there is a clear need to move beyond our current institutions and processes.

Robert Wolfe of Queen's University has suggested that any big idea for managing our common economic space will require strong centralized institutions. But just as mainframe computers were displaced long ago by networks of millions of personal computers, no single institution can cope with the complex and rapidly evolving reality of Canada's North American relationships. Nor can a single bilateral institution cope effectively either with the diffuse power structure of the United States government or with the provincial as well as federal dimensions of the challenge within Canada. Rather, as Hart suggests, we need to build on the strengths of the extensive networks our two countries already share. The purpose of negotiations is not to come up with one big institutional answer, but rather to identify where new institutional structures or arrangements could help to accelerate progress in areas such as regulatory convergence, management of the border and continental security.

Recent months have seen many ideas put forward on process, structure and institutional arrangements in a North American context.

Most of these proposals have been trilateral rather than bilateral in nature. They include:

- A permanent and expanded NAFTA Secretariat;
- An annual summit meeting of the NAFTA leaders;
- A trilateral advisory Council to provide support to the NAFTA leaders in addressing North American issues;
- A North American commission to effect coordination on key trilateral issues;
- A North American court on trade and investment;
- A joint tribunal to bring together the many current bilateral and trilateral dispute settlement mechanisms;
- Sectoral commissions similar to the recently created North American Steel Commission;
- Extension of the NORAD model of binational operational management to the defence of critical infrastructure;
- Expansion of the Permanent Joint Board on Defence (PJBD) into a trilateral institution for continental defence planning;
- More extensive exchanges between elected representatives in all three countries;
- A formal mechanism to enable the sharing of information and intelligence at the provincial, state and local levels; and
- Formal exchanges among senior levels of the business community in all three countries.



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

Continental initiatives such as a NAFTA Secretariat and consolidation or reform of dispute settlement mechanisms are certainly worth exploring, but given the rising tide of protectionist sentiment in the United States, significant expansion of the NAFTA or of NAFTA-based institutions seems unlikely in the short term. However, just as the success of the Canada-United States Free Trade Agreement set the stage for the NAFTA five years later, efforts to create or expand institutional arrangements between Canada and the United States could have both real benefits in the near term and potentially evolve into trilateral initiatives in the longer term.

The most successful examples of existing bilateral institutions are ones with relatively narrow and specific mandates, notably the PJBD and NORAD in the military sphere and the International Joint Commission in the management of boundary waters. The CCCE continues to believe that smaller joint bodies, with limited mandates to identify and resolve problems, are the most promising means of enhancing the institutional capacity to manage the continuing process of economic integration between Canada and the United States.

The development of flexible and effective institutions will require increasing personal contacts. Parliamentarians have a critical role to play in enabling greater coherence in the bilateral relationship. In the United States in particular, “all politics is local”, and strong relationships between our respective heads of government and cabinet members will not be enough to drive an ambitious bilateral or trilateral agenda through the diffuse United States power structure.

As Prime Minister Martin has suggested, it is vital to strengthen the network of relationships between elected representatives in Canada and their counterparts in the United States and Mexico. This effort must include not only federal Members of Parliament and Senators, but also leaders, ministers and members of provincial and territorial legislatures and the heads of municipal governments. At all levels, governments should ensure that elected representatives are both encouraged and have sufficient resources to strengthen the bilateral relationship.

Donald W. Riegle, former Democratic senator from Michigan, recently suggested going even further to institutionalize such links. In addition to expanded interparliamentary exchanges, he called for quarterly scheduled meetings between Canada’s Minister of Foreign Affairs and the United States Secretary of State and the inclusion of sub-cabinet level officials in these meetings. He also recommended similar quarterly meetings between major Canadian business organizations and their American counterparts.

The bilateral ties between business organizations are already well established. The *Canadian Council of Chief Executives*, for instance, talks regularly with the United States Business Roundtable. In addition to addressing bilateral issues, the two organizations have worked with the Consejo Mexicano de Hombres de Negocios on issues within the NAFTA and the Asia-Pacific Economic Cooperation forum and with counterpart organizations in Europe and Japan encouraging more rapid progress in multilateral trade and investment liberalization through the World Trade Organization.



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

EXECUTING A COMPREHENSIVE STRATEGY

A comprehensive strategy for building a 21st century Canada-United States partnership in North America, one that encompasses both economic and security issues, will not be simple either to develop or to execute. It will require a coherent approach across many departments within each federal government. It will require the active engagement and cooperation of state and provincial governments. And it must integrate bilateral negotiations both with the obligations and opportunities of the NAFTA and with our two countries' independent aspirations and priorities in the global arena.

Coherence within federal governments

A comprehensive strategy necessarily will involve issues that cross many departments within the federal government in both countries. Prime Minister Paul Martin already has taken several important steps to focus the efforts of his government in managing the Canada-United States relationship. In particular, he has:

- Consolidated many arms of government with security responsibilities, including the Royal Canadian Mounted Police, the Canadian Security and Intelligence Service and customs inspectors, into the new Department of Public Safety and Emergency Preparedness, headed by Deputy Prime Minister Anne McLellan;
- Created two new cabinet committees headed by the Prime Minister, one dealing with security, public health and emergencies and the other with Canada-United States relations;

- Appointed a Parliamentary Secretary to the Prime Minister for Canada-United States relations;
- Appointed a National Security Advisor;
- Created a new Canada Border Services Agency to build on the Smart Border initiative; and
- Proposed a new National Security Standing Committee of the House of Commons.

These structural changes within the Canadian federal government will be critical in implementing the priorities that flow from the upcoming review of foreign and defence policy. They also will support the Prime Minister's commitment to a national security strategy, one that will coordinate the efforts of the new Department of Public Safety and Emergency Preparedness with those of Canada's military, Coast Guard and other police forces in the defence of Canada's sovereign territory and in joint efforts with their United States counterparts in the protection of the continent as a whole.

The federal public service already has anticipated the need for greater understanding of Canada-United States issues and greater coherence in addressing them across departments. In 2003, for example, the Canadian Centre for Management Development launched an eight-month seminar and study tour program on Canada-United States issues for deputy ministers across all departments of the federal government. This forward-looking program is precisely what Canada needs in order



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

to forge and execute a coherent and comprehensive strategy for North America.

Coherence within Canada will be vital to our ability to develop and execute a successful strategy, but coherence also is an important negotiating objective. Inconsistency between different arms of other governments hurts Canada's economy. For instance, Canadian exporters were exposed to additional uncertainty when the United States Food and Drug Administration introduced new rules on border notification aimed at preventing bioterrorism that at least initially were not fully consistent with the notification requirements of the Department of Homeland Security.

Coordination with subnational governments

Canada and the United States are both federal states. As Earl Fry of Brigham Young University has noted, the United States federal government may have more power than its Canadian counterpart, but its state governments are still prone to ignore federal dictates, especially when shaping tax and subsidy packages aimed at luring major investments.

With efforts to foster greater coherence within Canada's federal government well underway, the next big challenge will be to ensure consistent and timely policy actions between levels of government. Trade negotiations as well as defence and foreign policy are a federal responsibility, but the range of issues involved in a comprehensive Canada-United States strategy inevitably will sprawl across many areas of provincial jurisdiction as well.

On a more practical level, key issues such as border infrastructure and the competition for

investment also involve municipal interests and responsibilities. Nowhere was the lack of coordination between the three levels of government more evident than in Windsor, Ontario. The value of goods crossing its border points with Detroit is greater than total United States trade with Japan, and yet efforts to meet the urgent need for increased capacity on border infrastructure were stymied for years by disputes over local issues. Only in March 2004 was agreement reached on five initial projects within a \$300 million effort to expand the Windsor gateway. The importance of cross-border regions in driving Canada's economic growth reinforces the need for federal and subnational governments to work together in managing borders more effectively.

This raises another consideration that has been bubbling to the surface in discussions about how to handle the process of economic integration. Within Canada, the Agreement on Internal Trade has a tattered history, respected more in principle than in fact. More recently, there have been signs that even its modest past progress is beginning to unravel as some provincial governments withdraw their financial support for the Winnipeg-based internal trade secretariat. If one of Canada's goals is to negotiate regulatory compatibility within North America, obviously we have to get our act together as a country first.

The most urgent arena for greater intergovernmental coordination is that of regulation. Regulatory duplication, overlap and conflict has been a perennial source of frustration for businesses in Canada. Making regulatory processes faster, simpler, less costly and more predictable is an important policy objective in its own right, one that would have



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

an important impact on competitiveness, economic growth and job creation.

The importance of regulatory issues has been recognized at the federal level through a series of initiatives including the commitment within the Innovation Agenda to the review of all key regulations by 2005, the creation in 2003 of the External Advisory Committee on Smart Regulation and more recently Prime Minister Martin's appointment of a Parliamentary Secretary with specific responsibility for regulatory reform.

Progress to date at the provincial level has been more modest and unfortunately fragmented. For example, Canada is now the only country in the industrialized world without a national regulator for its securities markets. Efforts to improve investor protection and entrepreneurial access to capital through regulatory harmonization and creation of a single regulator continue to be frustrated by federal-provincial and inter-provincial disagreements. Even serious efforts to streamline regulation, such as British Columbia's new approach to securities regulation, have had the unfortunate result of widening divergence between provinces instead of leading to effective national reform.

Provincial governments are showing greater signs of wanting to work together in order to have more influence on the national agenda, most notably through the recent creation of a Council of the Federation. The Council's first meeting in February 2004, however, gave only passing attention to the issue of reducing inter-provincial trade barriers. The CCCE believes that this forum can play a significant role in engaging the provinces in shaping Canada's strategy vis à vis the United States.

Regulatory issues in particular will be important not only in helping Canada to compete more effectively for investment and jobs within a highly integrated continental economy, but also in negotiations aimed at strengthening the North American partnership. In one way or another, subnational governments therefore need to be engaged in the negotiation process.

For Canada to negotiate successfully on issues such as regulatory harmonization or mutual recognition, domestic coherence is an essential precondition. In this and other policy areas, an effective Canadian strategy for North America must be built on a foundation of coherent policies at home.

Coordination with Mexico

The Canada-United States Free Trade Agreement led to the NAFTA. Both have been impressive successes, producing real benefits for all three partners. The Canada-United States strategy proposed in this paper recognizes the important progress driven by the NAFTA and supports continuing efforts to build on its foundation.

The CCCE recognizes that on many issues, the United States faces distinctly different challenges on its northern and southern borders, but there are some remarkable parallels as well. Both Canada and Mexico, for instance, worry about the illegal inflow of guns from the United States. And in the other direction, the United States has serious concerns about the flow of illegal drugs from both Canada and Mexico. Both in managing the continuing economic integration of North America and in blunting threats to our common security, there are challenges faced by all three countries that will



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

best be pursued on a trilateral basis from the outset.

Both Mexico and Canada, however, should be prepared to accept that on other issues, bilateral negotiations may prove to be the more effective short-term path toward continental solutions. Particularly with regard to some of the core issues identified in this paper, a Canadian-led bilateral discussion seems most likely to be fruitful.

What the United States could achieve in enhancing energy security through its already open relationship with Canada clearly will exceed what Mexico can possibly do within its Constitution to encourage foreign investment and expand production of its oil and gas resources. On many regulatory fronts, Canada's goals, standards and processes are much closer to those of the United States than are Mexico's, suggesting that bilateral harmonization or mutual recognition would be more feasible in the short term. And in terms of military cooperation, Canada's relationship with the United States is unique, reflecting both a long shared history of defending democratic freedom globally as well as within North America and a high degree of interoperability with United States forces.

At the same time, Canada must recognize that it may not be the only country taking the lead in bilateral discussions. When it comes to increasing border security against the illegal movement of both people and drugs, for instance, Mexican authorities have an extensive array of cooperative arrangements with their United States counterparts. These arrangements, and the growing mutual respect and confidence that has flowed from their success over the

years, may offer examples worth replicating on the northern border. Whether Canada or Mexico takes the lead in bilateral discussions with the United States on any given issue, the interests of all three countries will be served best if continental solutions remain the ultimate goal and if the third country is kept fully in the loop and expresses support for bilateral initiatives involving the other two.

In the longer term, trilateral solutions may be feasible even for some of the more difficult issues. Both American and Mexican commentators, for instance, have raised the possibility of either United States or joint NAFTA immigration controls at airports in Mexico, with the goal of easing flows within the continent by controlling entry from non-NAFTA destinations at the first point of entry to North America.

From a purely pragmatic political point of view, it obviously is in Canada's interests to consider the Mexican dimension in any bilateral discussions it has with the United States. More than 20 million American voters are of Mexican descent. Speaking to their feelings and opinions and keeping Mexico's aspirations and interests in mind could add considerably to Canada's ability to promote an ambitious bilateral agenda in Washington.

Taking Mexico's interests into account may in some cases also broaden support for Canada-United States initiatives within the American business community. The huge volume of Canada-United States trade combined with the high degree of cross-border ownership and intra-firm trade provides a strong natural constituency for a strategy of building on the bilateral Smart Border action plan. American business interests,



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

however, involve considerable trade across the border with Mexico as well. A Canadian strategy that advances measures to improve the Canada-United States border as potential prototypes for similar actions on the southern border could attract even broader support within the American private sector.

In short, many of the issues on the Canada-United States agenda are and will continue to be addressed primarily through bilateral discussions and arrangements. But in shaping its path forward, Canada must ensure that its strategy continues to support the steady strengthening of the trilateral North American partnership. This means placing even greater emphasis on trilateral discussions in sectors such as energy, agriculture, steel and transportation and even expanding discussions to include other areas such as borders and security and multilateral and regional institutions. This also means exploring over time the feasibility of a more ambitious trilateralism as advocated by Dr. Robert Pastor of American University, whose vision extends to a trilateral customs and immigration service and a North American passport.

In the meantime, Canada and Mexico should continue to work together in addressing the many issues within North America and globally where their interests and objectives coincide, and encourage each other to pursue bilateral discussions with the United States whenever such an approach seems more likely to accelerate progress toward a shared continental vision.

Compatibility with global priorities

The focus of this paper is on taking the Canada-United States partnership to a new level. The

CCCE recognizes, however, that both Canada and the United States as sovereign nations have many other priorities, interests and relationships globally. North America will continue to dominate Canada's trade and investment flows. This degree of dependence reinforces the need for our country, as part of its strategy for managing North American integration, to offer strong and consistent support for multilateral institutions and processes and to pursue complementary regional and bilateral strategies, especially in Europe, Asia and Latin America.

Canada's economy relies on the multilateral trading system to create new export opportunities in both industrialized and developing country markets, to help guarantee our rights in existing markets, including the United States, and to establish global rules in new areas. This is why, for instance, Canada has been and must continue to be a strong supporter of the efforts of the World Trade Organization. As the CCCE said in a 2003 paper calling for an ambitious 12-point agenda for the Doha Development Round of multilateral trade and investment liberalization: "Only a multilateral rules-based system can provide the predictability and security that Canadian businesses need in order to flourish both at home and in the global economy." In this regard, it will be important for Canada both to maintain strong support for multilateral institutions and to ensure that its efforts to enhance its North American partnerships are consistent with its obligations under the WTO and other multilateral agreements.

In addition to working with the United States and Mexico to build on the foundation of the NAFTA, Canada also must maintain its commitment both to multilateral institutions and



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

to regional initiatives such as the Asia-Pacific Economic Cooperation forum and the proposed Free Trade Area of the Americas.

Key bilateral relationships beyond North America must be pursued with fresh vigour. Canada must enhance its interaction with other major industrialized countries such as Japan, South Korea and Australia. An enlarged and powerful European Union also beckons and in this regard the CCCE strongly endorses the recently concluded framework for a Canada-European Union Trade and Investment Enhancement Agreement. Canada also must reach out to the developing world and in

particular devote expanded resources and energy to the key emerging markets of China, India and Brazil.

Building a 21st century Canada-United States partnership holds the key to enhancing the security and prosperity of Canadians in the years ahead, but to achieve our full potential within the international community, we must maintain our leadership in extending the benefits of trade and investment liberalization to developing countries as well as our proud tradition of internationalism in contributing to global peace and security and to the spread of democratic institutions and values.



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

RECOMMENDATIONS

Based on the preceding discussion of the issues involved in developing and executing a strategy for building a 21st century Canada-United States partnership in North America, this paper puts forward 15 recommendations as a basis for further discussion.

While most of these recommendations focus on proposals for new bilateral arrangements between Canada and the United States, they are founded on two basic assumptions. First, the sheer breadth and depth of our shared economic and security interests means that Canada's success in managing its relationship with the United States will have a profound impact on our country's ability to chart its course and expand its influence globally. Second, recognizing the decisive change in the dynamics of North American relationships ushered in by the NAFTA in 1993, we believe that Canada's strategic vision for North America must take into account the political and economic importance of Mexico and the potential of developing over time a North American community. To this end, the CCCE will continue to study and promote deeper trilateral cooperation that goes well beyond the NAFTA.

RECOMMENDATION 1: A COMPREHENSIVE STRATEGY

Canada should develop a comprehensive strategy for strengthening its economic and security partnership with the United States. This strategy will require negotiations across a broad range of issues, but need not lead to a single overarching agreement or treaty. Rather, its goal should be to achieve a series of interlocking and mutually supporting agreements that in turn will be implemented through a flexible framework of formal and informal institutions and arrangements.

RECOMMENDATION 2: TARIFF CONVERGENCE

Canada and the United States should negotiate harmonization of tariff rates on goods from other countries at the lower of the two current rates across as many categories of goods as possible. The two countries also should agree to dispense with rules of origin requirements on bilateral trade on all goods where tariff rates have been harmonized.

RECOMMENDATION 3: REGULATORY CONVERGENCE

Canada and the United States should embark on a joint review of their regulatory differences. Where regulatory goals are similar, this review should aim to eliminate the need for administrative procedures at borders either through harmonization of rules at the highest prevailing standard or through mutual recognition or other means of making regulatory requirements compatible.



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

RECOMMENDATION 4: ENERGY STRATEGY

Expanding energy demand in Canada, North America and the world requires Canada to develop a comprehensive strategy for ensuring the timely development of the energy supplies it will need both to foster a competitive economy and high standard of living for Canadians and to reinforce its competitive advantage as the preferred supplier of energy to the United States. This energy strategy must be fully integrated with Canada's pursuit of environmental goals such as the improvement of air and water quality and the global control of greenhouse gas emissions.

RECOMMENDATION 5: RESOURCE SECURITY

To deal directly with the Canadian sectors most affected by trade remedy actions and to address United States interests in enhanced energy security, Canada should develop and propose a resource security pact based on respect for the twin principles of security of access and security of supply.

RECOMMENDATION 6: TRADE REMEDIES

Canada and the United States must find a mutually satisfactory way to address the remaining problems arising from predatory pricing and subsidization. To this end, Canada should pursue a multifaceted approach to reducing the impact of current trade remedy processes, through comprehensive or sectoral negotiations, joint institutional arrangements, competition policy, regulatory convergence and multilateral institutions.

RECOMMENDATION 7: FOREIGN AND DEFENCE POLICY REVIEW

As announced in December 2003 by Prime Minister Paul Martin, Canada must immediately conduct a thorough and comprehensive review of its diplomacy, trade, development and defence policies, one that will establish clear priorities for the years ahead and provide for ongoing reviews at regular intervals. This review must not be used as an excuse for delaying equipment purchases and other investments that are clearly required just to prevent further deterioration of Canada's military capability.

RECOMMENDATION 8: A CREDIBLE MILITARY CAPABILITY

Four core defence priorities are clear: strategically mobile light infantry that is fully interoperable with allied forces within North America and abroad; protection of Canada's maritime approaches; surveillance and defence of North American airspace; and critical infrastructure protection and emergency response within Canada. A credible capability in meeting these priorities alone will require significant additional resources for Canada's ground, naval and air forces.



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

RECOMMENDATION 9: NORTH AMERICAN DEFENCE INSTITUTIONS

In protecting its territory and contributing to the security of North America, Canada must take the lead in expanding and developing joint military institutions with the United States. This should include strengthening existing institutions such as the Permanent Joint Board on Defence, the binational planning group within the United States Northern Command and the North American Aerospace Defence Command (NORAD). Joint efforts on protection of airspace and maritime approaches should include consideration of the inclusion of ground and naval forces within an expanded NORAD command structure.

RECOMMENDATION 10: CANADA-UNITED STATES INSTITUTIONS

In addition to the structures and arrangements detailed in the Canada-United States Smart Border action plan and those currently in force in the defence sector, Canada and the United States should develop, as and when desirable, new institutions on a sectoral or issue-specific basis, such as those now used to manage boundary waters and address issues in the steel industry.

RECOMMENDATION 11: COHERENCE WITHIN FEDERAL GOVERNMENTS

To develop and execute a winning strategy, Canada must ensure coherence across many departments within the federal government. To this end, the government should implement and build on the important structural measures announced by Prime Minister Martin on December 12, 2003. In addition, Canada must encourage an equal degree of coherence among the relevant departments of the United States federal government.

RECOMMENDATION 12: COOPERATION WITH STATE/PROVINCIAL GOVERNMENTS

The range of issues involved in a comprehensive renewal of the Canada-United States partnership inevitably will sprawl across many areas of provincial and state jurisdiction. The process of developing, negotiating and implementing new bilateral arrangements therefore must be appropriately coordinated with relevant subnational governments. In addition, effective bilateral negotiation in areas such as regulation and the much needed enhancement of border infrastructure requires as a precondition coherent policies within Canada.

RECOMMENDATION 13: BUILDING ON THE NAFTA

While recognizing that most of the key priorities involved in shaping a 21st century Canada-United States partnership require bilateral negotiations in the near term, Canada should continue to support the North American Free Trade Agreement as a vital tool for strengthening the trilateral relationship between Canada, the United States and Mexico. Where all three countries share a strategic interest, they should continue to explore trilateral solutions from the beginning. To maximize the potential for trilateral



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

progress, the NAFTA partners should consider taking additional institutional steps, starting with an annual summit meeting of the NAFTA leaders and creation of a permanent NAFTA Secretariat.

RECOMMENDATION 14: COMPATIBILITY WITH GLOBAL PRIORITIES

North America will continue to dominate Canada's trade and investment flows, but both Canada and the United States as sovereign nations have many other priorities, interests and relationships globally. Canada must continue to offer strong and consistent support for multilateral institutions and processes and to pursue complementary regional and bilateral strategies, especially in Europe, Asia and Latin America.

RECOMMENDATION 15: PRIVATE SECTOR ENGAGEMENT

In addition to making the most of the opportunities created by economic integration, the business community should contribute to the process of strengthening institutional ties between Canada and the United States. To provide formal channels for advice from the Canadian private sector, the federal government should appoint a private sector advisory group to support its new Cabinet Committee on Canada-United States Relations.



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

CONCLUSION

Public opinion polling suggests that 15 years after the launch of the Canada-United States Free Trade Agreement, some two thirds of Canadians and Americans alike believe that their leap of faith into freer trade has worked and want more of it. Where Canadians once approached big ideas on this front with great trepidation, we are now confident that neither stronger economic ties with the United States nor a common security agenda will imperil our political sovereignty, our social values or our cultural vitality. Canadians understand that sovereignty is not an abstract goal, but a tool to be used in serving our interests and doing our duty as citizens of the world.

The fact is that Canada and the United States share many aspirations and challenges. On the economic front, both countries face a constant need to innovate and improve productivity in order to support the continued growth of our standard of living as major emerging countries such as China, India and Brazil increasingly compete for business in the service as well as manufacturing sectors. The process of economic integration unleashed by the Canada-United States Free Trade Agreement was painful at first, but both countries are better off as a result. Moving forward, it is in the interest of both countries to build on this progress in order to maximize our collective as well as individual competitiveness and prosperity within a dynamic global economy.

On the issue of how best to shape Canada's future within North America, many threads of discussion have been explored in recent months. The time has come to begin weaving these threads into a grand design. The shape of many individual panels in this tapestry have yet to be worked out, but there appears to be broad agreement within Canada both

on the outlines of the strategy our country should pursue and on the urgency of moving forward.

In terms of substance, there has been consensus from the beginning that managing the Canada-United States partnership does not need North American equivalents of the European Parliament or the European Commission. Nor does the current stage of economic integration require a common currency. The vigorous discussion of many other options, however, also has produced a significant degree of agreement around two key facets of the strategy Canada does need. First, a winning strategy for Canada cannot be fragmented and incremental; it must be comprehensive and ambitious. Second, while the heart of Canada's long-term North American strategy must remain trilateral, it should follow a two-track process. Progress toward trilateral solutions seems likely to be more rapid if Canada and the United States take the lead in addressing many of the key economic and security issues facing our countries.

The specific elements of Canada's strategy will continue to evolve as governments, academics and businesses carry out further research and consultation. But even before settling the fine points of Canada's strategy for reinventing its partnership with the United States, we have to start thinking seriously about timing, about how and when Canada should take action.

As former Canadian ambassador Allan Gotlieb and others have emphasized, the asymmetry of the Canada-United States relationship means that Canada must take the lead in advancing new ideas. To lead effectively, we must do our homework and ensure that our strategy both meets the needs of



NEW FRONTIERS
***Building a 21st Century Canada-United States Partnership
in North America***

Canadians and can attract the interest of our friends in the United States.

Canada now has a new Prime Minister and a new cabinet, committed to pursuing a “politics of achievement”. The announcement of the members of Paul Martin’s new team in December 2003 was accompanied by ambitious new initiatives establishing some of the machinery of government critical to moving forward on the North American agenda. His first meeting with President George W. Bush at Monterrey, Mexico in January 2004 both set a more cordial and constructive tone and demonstrated that good relations at the top can lead quickly to concrete progress in addressing sensitive issues.

In the short term, governments in both Canada and the United States will be preoccupied with winning new mandates from their respective electorates. Once the political dust has settled, however, Canada must be ready to move quickly with a proposal that can grab attention and win support in both the White House and Congress before the legislative momentum of a new session takes hold.

The recommendations in this paper are not intended as the final word, but rather as an attempt to reflect the current state of political and policy discussion in all three countries and to crystallize the essential elements of an ambitious but achievable Canadian strategy for North America. More research is required in a number of key areas and many significant issues will have to be resolved both within individual countries and between the North American partners. Meaningful progress will require the active engagement of the public and private sectors and multiple levels of government. This process will take time, and that is all the more reason to move as quickly as possible.

The *Canadian Council of Chief Executives* will continue to contribute actively to the process of developing a winning Canadian strategy. Last April, nearly 100 member chief executives traveled to Washington for high-level meetings at a time of considerable tension between our governments. In the spring of 2004, we will do so again, meeting with key decision-makers and influence-leaders across party lines and in both the public and private sectors.

In the meantime, the CCCE will continue its active program of research and consultation. In the months ahead, we will focus more intensively on sectoral priorities, regulatory issues and ideas for strengthening institutions. We also will participate actively in the Canadian review of foreign and defence policy announced by Prime Minister Martin. And we will continue to use our contacts to explore options and increase awareness of relevant issues among decision-makers in government and business in the United States.

Canada’s business leaders believe that our country’s economic prosperity and global influence can best be served by forging competitive advantages within a vibrant North American economic space. The members of the CCCE have and will continue to put ideas on the table that will contribute to the goal we have expressed of making Canada *the best place in the world in which to live, to work, to invest and to grow*.

To this end, this paper has suggested that Canada’s best interests as well as those of the United States can only be served through a strategy for North America that is *comprehensive in its approach and coherent in its development and execution*.



NEW FRONTIERS
Building a 21st Century Canada-United States Partnership
in North America

APPENDIX I: CANADIAN COUNCIL OF CHIEF EXECUTIVES

The *Canadian Council of Chief Executives* is a non-partisan and not-for-profit organization composed of the chief executive officers of 150 leading Canadian enterprises, and is widely recognized as Canada's most influential business organization. Founded in 1976, the Council is devoted to strengthening the country's economy and society through the development of sound public policy in Canada, North America and the world. Its member chief executives head companies that administer more than C\$2.3 trillion in assets, have annual revenues of close to C\$600 billion and account for a significant majority of Canada's private sector investment, exports, training and research and development.

The members of the Council's Executive Committee are: Chairman Richard L. George, President and Chief Executive Officer of Suncor Energy Inc.; President and Chief Executive Thomas d'Aquino; Honorary Chairman A. Charles Baillie; and Vice-Chairmen Derek H.

Burney, Dominic D'Alessandro, Paul Desmarais, Jr., Gwyn Morgan, Gordon Nixon and Paul M. Tellier, the chief executives respectively of CAE, Manulife Financial, Power Corporation of Canada, EnCana Corporation, Royal Bank of Canada and Bombardier Inc.

The Council has played an influential role in shaping the direction of fiscal, taxation, trade, energy, environmental, competitiveness and corporate governance policies in Canada.

In international affairs, the Council is the voice of Canada's chief executives in bilateral, regional and global initiatives including international trade and investment, economic development and the environment.

The Council was the private sector leader in the development and promotion of the Canada-United States Free Trade Agreement in the 1980s and the NAFTA in the early 1990s.