



MEETING THE GLOBAL CHALLENGE

PRIVATE SECTOR PRIORITIES FOR THE SECURITY
AND PROSPERITY PARTNERSHIP OF NORTH AMERICA

2008 REPORT TO LEADERS FROM THE
NORTH AMERICAN COMPETITIVENESS COUNCIL



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INTRODUCTION

Canada, Mexico, and the United States enjoy one of the most important relationships in the world. We congratulate the Leaders of our three countries for establishing the Security and Prosperity Partnership of North America (SPP) in recognition of this special relationship. We also thank the Leaders for considering the views of the private sector on how to enhance competitiveness and strengthen the well-being of all North Americans. North America faces new challenges with changes in the global economy, and new economic giants such as China and India have become formidable competitors for investment and jobs in the manufacturing and service sectors. As more and more countries open their markets to the global economy, North America must continue to enhance its own competitiveness.

Measures to enhance the competitiveness of the North American economies have always been important even when times were good. The current period of economic uncertainty requires that we accelerate our efforts. With so much at stake, it is vital that we not be complacent. In the short term, we need to make significant progress on practical measures to cut costs, reduce barriers, and ensure that people and goods move smoothly, efficiently, and securely among our three countries. We need to think strategically about how best to reinforce each others' strengths in making North America the best place in the world in which to live, work, and do business.



ACTIVITIES OF THE NACC IN 2007

The SPP was launched in March 2005 as an effort to increase security and enhance prosperity among Canada, Mexico, and the United States through greater cooperation and information-sharing, while respecting the sovereignty, laws, unique heritage, and culture of each country. Recognizing that the business community's participation is key to enhancing North America's competitive position in global markets and is a driving force behind innovation and growth, the private sectors in all three countries were encouraged in 2006 to create the North American Competitiveness Council

(NACC). The NACC provides a voice for the trilateral business community and engages the private sector in finding solutions.

The initial work of the NACC focused on three areas critical to competitiveness: border-crossing facilitation; standards and regulatory cooperation; and energy integration. Its first report to security and prosperity Ministers, delivered at the SPP Ministerial Meeting in Ottawa in February 2007, offered 51 recommendations for action in these three key areas, both within and building upon the SPP.

The NACC met with Prime Minister Harper, President Calderón, and President Bush during the North American Leaders' Summit in Montebello, Quebec, in August 2007. The first Report to Leaders was tabled at that time, outlining progress on the 51 recommendations for action. Several of the NACC's key recommendations were endorsed by the Leaders in Montebello, including proposals for an Intellectual Property Action Strategy, a Regulatory Cooperation Framework, a Trilateral Agreement for Cooperation in Energy Science and Technology, and a North American Plan for Avian and Pandemic Influenza. Additionally, the Summit produced significant progress across a range of policy areas that are vital to the security, prosperity, and competitiveness of North America.

While supporting the Montebello priorities, the NACC suggests that all of the recommendations put forward in 2007 remain relevant and important. To enhance the security and prosperity of North America, the NACC is convinced that governments and the private sector must continue to work together to implement these recommendations. Continued progress is critical to achieving the goal of making North America a better place to live and a more competitive place to do business globally.



PRIORITY ISSUES

Improved border management continues to be a critical priority for business in all three countries. Businesses in Canada, Mexico, and the United States are bearing the burden of new measures to enhance security, as well as more

rigorous enforcement of existing rules. This means that businesses in all three countries are facing longer delays, higher inspection rates, additional fees, and more layers of security when they can afford it least. We urge Leaders to ensure that officials focus on effective measures to address real threats in ways that enable our highly integrated economies to function as effectively as possible.

When the NACC met with security and prosperity Ministers in Los Cabos, Mexico, in February 2008, the Ministers asked for assistance from the NACC on five specific action items within the Montebello priorities: implementation of the strategy to combat piracy and counterfeiting and building on the Regulatory Cooperation Framework by pursuing collaboration through sectoral initiatives, with an emphasis on the automotive sector; deepening cooperation in food safety and products to better identify, assess, and manage unsafe food and products before they enter North America and collaborate to promote the compatibility of our related regulatory and inspection regimes; development of energy and environment projects under the newly signed Agreement on Science and Technology and cooperation on moving new technologies to the marketplace; strengthening cooperation protocols and creating new mechanisms to secure our common borders while facilitating legitimate travel and trade; and strengthening emergency management cooperation capacity before, during, and after disasters.

As Leaders gather in New Orleans, the NACC would like to offer its thoughts on these five priorities and other key issues we have identified:

- **Facilitated entry for cargo.** While disappointed by the breakdown of negotiations in 2007 on the planned pilot project for land preclearance, the NACC is encouraged that governments are discussing the recent United States proposal for “facilitated entry” for cargo. The NACC continues to favor a more comprehensive approach to reducing border congestion that would entail shifting the customs clearance process, to the extent possible, away from ports of entry, and toward the inbound side of choke points such as border bridges and tunnels. In the longer term, as many inspection processes as possible should be moved away from the border. For example, food and agricultural inspections currently carried out at the border could be relocated to manufacturing facilities where government inspectors are already present. In the

meantime, other steps recommended by the NACC in 2007 would help to speed the secure processing of cargo shipments. These include: raising the threshold for low-value clearance of goods; simplifying the NAFTA certification requirements; simplifying the NAFTA rules of origin; enhancing the benefits of participation in FAST (in the United States by implementing the dedicated greenlane concept for trucks/maritime containers and in Canada by allowing access to the CSA/FAST program for all goods from all countries in all transportation modes); agreeing on full mutual recognition of the PIP and C-TPAT programs; and achieving the target of one million NEXUS participants within the next eighteen months. We also urge the Mexican government to implement a program similar to C-TPAT, enabling United States and Mexican customs organizations to achieve a mutual recognition agreement that would provide reciprocal benefits for participants in each country's program. In the short term, we urge the United States and Mexican governments to standardize and extend hours of operations at crucial border crossings.

The recent United States Customs and Border Protection proposed rulemaking on "Importer Security Filing and Additional Carrier Requirements," better known as the "10+2" initiative, imposes potentially costly new requirements on importers. This proposal requires submission (and resubmission) of hundreds of millions of data elements at a tremendous cost to the government and trade community. Additionally, we are concerned that the proposed data elements are inconsistent with those agreed to under the WCO SAFE Framework of Standards, potentially burdening North American companies with duplicative data requirements and additional costs.

Implementing the cross-border trucking provisions of the NAFTA is long overdue. The United States Department of Transportation's cross-border trucking demonstration project is an important step to enhance North America's competitiveness, reduce congestion and pollution at the border, and promote economic growth. Questions about safety have been fully answered, and every truck entering the United States must meet every United States safety requirement. This demonstration project should continue, and will provide benefits to United States and Mexican workers, farmers, consumers, and companies.

- **Supply-chain development.** Efficient transportation networks are critical to establishing competitive supply chains across North America. As agreed by Ministers in Los Cabos, governments should move quickly to modernize and expand transportation infrastructure at the borders. However, at high volume crossings on both the northern and southern land borders of the United States, such as the Detroit-Windsor and Nuevo Laredo-Laredo crossings, progress has been much slower than expected. It is imperative that location decisions and financing agreements for expansion of critical border infrastructure at these and other high-volume border points be expedited given their strategic importance to North American supply chain development.
- **The automotive industry.** Since the signing of the Canada-United States Auto Pact more than four decades ago, the automotive industry has been a symbol of the benefits of more open trade and highly integrated supply chains within North America—and yet a truly comprehensive and integrated auto sector remains an elusive objective due to different regulatory requirements and inefficient border crossings. This industry is facing the brunt of the global competitive challenge, and therefore provides an excellent example of the critical importance of efficient borders and greater regulatory cooperation in driving continued investment and job creation in the broader North American manufacturing sector. All three countries should move to align vehicle safety standards and regulations in ways that would enhance safety, beginning with Canada and the United States and with Mexico over the long term. This should include standardization of regulations on occupant protection, electronic stability control, driver distraction, bumper and emissions standards and regulation of fuel economy improvements. In line with this, we would like to commend the Canadian government for recently proposing an amendment to the Motor Vehicle Safety Regulations (MVSR) to align Canada and United States bumper standards for passenger cars. Standardization between Canada and the United States, and eventually Mexico, on fuel economy regulations would also reduce complexity and cost. The new Corporate Average Fuel Economy (CAFE) requirements passed last year in the United States Energy Bill maximize environmental effectiveness and safety while preserving consumer vehicle choice.

- **Intellectual property rights.** Rigorous protection of intellectual property rights is fundamental to an innovative and globally competitive economy. At the Montebello Summit, Leaders endorsed the NACC's recommendation for a trilateral Intellectual Property Action Strategy. The private sector has presented specific recommendations for implementation of the Strategy, which the NACC fully endorses. We urge rapid progress in implementing these recommendations, especially IP leadership within governments at the Executive/Ministerial level, expanded and dedicated enforcement authority and resources, national IP laws that meet global standards for effective IP protection, collaboration on third-country issues, and a digital enforcement pilot project.
- **Western Hemisphere Travel Initiative.** The United States Department of Homeland Security, in conjunction with state and provincial governments, is making welcome progress in developing enhanced drivers' licenses and other secure alternatives to the passport. Yet uncertainty over implementation and availability of passport substitutes continues to cause disruption and concern, particularly in the tourism sector. However, while both Canada and the United States already have improved their capacity to process passport applications, it is far from clear whether the federal and state governments in both countries can ensure adequate distribution of economical, but secure, alternatives to a passport before the June 2009 date for full implementation.
- **Safe food and products.** The NACC fully endorses the objectives of the Safe Food and Products Initiative announced at Montebello and reemphasized by Ministers in Los Cabos. Specifically, it supports government plans to work with relevant authorities and industry to strengthen communication and cooperation to better identify, assess, and manage unsafe food and products before they enter North America, and to work to make our related regulatory and inspection regimes more compatible. The NACC looks forward to working closely with governments to ensure the safety of food and products imported into North America without the imposition of unnecessary barriers to

trade, and consistent with the principles of a risk-based scientific approach to sanitary and phyto-sanitary standards and inspections.

- **Sustainable energy and the environment.** With oil prices hovering over US\$100 per barrel, Canada, Mexico, and the United States should encourage private sector cooperation across North America, as well as among the three governments, on promising technologies such as automotive fuel efficiency and other areas of energy efficiency and conservation such as carbon capture and sequestration, initiatives for emissions reductions, and low-carbon fuel standards. The private sector is a leader in the development of sustainable energy technologies and environmentally friendly products, as well as in driving progress on the critical global issue of climate change. The three countries should increase investment in research and development of both traditional and non-traditional energy resources and encourage expansion of energy production in all its forms as appropriate. We should work together to ensure that environmental policies go hand-in-hand with efforts to strengthen North American competitiveness.
- **Emergency management.** Governments have made progress in planning for pandemics and other emergencies that could trigger limitations on border traffic. However, recent progress has slowed. The three governments must ensure that they understand and are prepared to work with one another's emergency protocols, particularly with respect to how and when decisions are made to restrict border traffic, and how to manage traffic and determine priority shipments during emergencies. Effective response is a shared responsibility of governments at all levels, as well as the private sector, nongovernmental organizations (NGOs), and individual citizens. Such a partnership is an essential component of a unified approach to effective incident response and timely business resumption. Emergency management exercises should be conducted in close cooperation with representative companies whose shipments would be affected by closures or diversions to other ports of entry. Governments should develop complementary processes, clear communications plans, and a formal mechanism to deal with these issues this year.

- **Financial services.** Efficient access to capital is essential for a competitive North American economy, yet existing regulatory barriers add unnecessarily to the cost of capital, reduce returns to investors, and limit consumer choice. The NACC encourages enhanced cooperation in financial regulation. It applauds the September 2007 signing of the update to the United States-Canada Income Tax Treaty, which contains several important provisions including the NACC recommendation to eliminate the withholding tax on cross-border interest payments. The United States should ratify this protocol as soon as possible and both Canada and the United States should quickly complete all procedural steps. Similarly, the NACC urges progress on other recommendations, including those intended to improve the availability and affordability of insurance coverage for cross-border carriers and to expand the permissible investment options for insurers operating in Mexico. The National Infrastructure Program of Mexico provides an excellent opportunity to find new ways for cross-border collaboration on investment. We encourage the Mexican government to bring institutional investors into the planning process.



STRENGTHENING THE NORTH AMERICAN PARTNERSHIP

The North American Free Trade Agreement (NAFTA) has enhanced prosperity in all three countries through increased trade and investment, stronger economic growth, and lower prices for consumers. Nonetheless, the NAFTA's benefits are not universally understood. The public and private sectors in Canada, Mexico, and the United States must continue to promote trade and investment expansion and demonstrate to their respective publics the advantages of enhanced commercial relations with specific examples of successful integration on a North American basis.

Unless we work together to turn around public misperceptions, other specific recommendations to improve North American competitiveness will become largely irrelevant. To the extent that the NAFTA itself continues to be a target, efforts to "deepen the NAFTA" will be largely unsuccessful.

When the NAFTA was signed in the early 1990s, it put the North American partners at the forefront of global trade and investment liberalization. In the years since, multilateral negotiations and a host of bilateral and regional agreements have continued to reduce barriers around the world, diminishing some of the relative advantages provided by the NAFTA. The NAFTA partners have made further progress in various sectors and on rules of origin, and this work should be continued. However, unless the NAFTA is recognized for what it is—a major success—efforts to build on its foundation will falter.

The NACC is deeply concerned about isolationist rhetoric and its potential impact on the future of the NAFTA, the SPP, and other bilateral and trilateral efforts to strengthen the competitiveness of our economies. Governments and the business communities of Canada, Mexico, and the United States must work together to reinforce North America's many strengths in taking on the global competitive challenge, in making communities across North America more attractive places in which to invest and to create new and better jobs, and in ensuring broad public understanding of the significant benefits that flow from liberalized trade and investment within North America.

At the Montebello Summit, Leaders agreed that in a rapidly changing global economy we must continue to reduce unnecessary barriers to trade among the three countries. To this end, we must implement the NAFTA in full and build on its strengths.

In addition to strengthening ties within North America, there should be a trilateral effort to cooperate more closely in hemispheric and global fora. For example, Canada, Mexico, and the United States should agree on a common position in the upcoming negotiations toward an Anti-Counterfeiting Trade Agreement. Separately, Canada and the United States should finalize and approve their respective free trade agreements with Colombia in a timely fashion.



MEETING THE GLOBAL CHALLENGE

The focus of the SPP has been on practical measures that can achieve quick results in making North America a better place in which to live and do business. Some of the most effective paths toward a more competitive and prosperous North America will require discussion of measures that will generate controversy. Security-related issues, in particular, can be complex and controversial. This should not impede progress, however, toward finding reasonable and effective solutions.

Some of the strategic issues that need to be explored can be handled within the framework of the NAFTA or the SPP. Others may require consideration of new initiatives. What matters is not the label but the substance. In one forum or another, it is vital to keep moving forward in developing and putting in place measures that will make communities in all three countries safer and more attractive places to invest and enable companies to create more and better jobs.

We also should not shy away from addressing important issues that cannot be handled trilaterally at the outset. For instance, there is great potential to enhance labor mobility between Canada and the United States independently from the Mexico-United States bilateral agenda and priorities. Similarly, while the ultimate goal for regulatory cooperation should be to aim for North American or global standards, this should not prevent the negotiation of bilateral accords in the interim. The idea that “three can talk and two can do” has been ingrained in the SPP from its beginning, but will become even more important in the context of discussions on more controversial and asymmetric issues.



CONCLUSION

The SPP has proven to be a valuable framework for driving trilateral and bilateral cooperation on issues such as borders, regulation, and energy. Such cooperation is essential if all three North American partners are to be more successful in the global economy.

NACC members in all three countries find value in this opportunity to work with governments to strengthen North American competitiveness and security. We recognize that the incoming United States administration will review participation in this and other multilateral fora. We strongly urge the new United States administration to continue to seek progress on SPP priorities. On behalf of the private sectors of our three countries, we offer our full support and stand ready to help in any way possible. This could include the direct engagement of interested NACC members with advice on pragmatic, short-term action plans to address in full the remaining NACC recommendations and to deepen cooperation in the five priority areas established by the Leaders at Montebello.

We expect this trilateral partnership to evolve over time to meet changing circumstances and needs. No matter what form the partnership may take, the experience of the NACC over the past two years demonstrates the clear benefits of close cooperation on both strategic and specific issues among North America's business communities, as well as its governments. Other business organizations have extended this cooperation over the past year in launching productive new initiatives addressing issues such as border costs, sector integration, and supply-chain development.

The members of the NACC trust that their advice has assisted Leaders in choosing priorities and driving progress. Moving forward, the private sector will continue to offer our expertise to governments and will strive to communicate (through direct interaction and electronic dissemination of information) both the critical need for closer cooperation and the real benefits of greater openness to legislators, government officials, and the general public in all three countries.

APPENDICES

*MEMBERS OF THE NACC
ABOUT THE SECRETARIATS*

APPENDIX I: MEMBERS OF THE NACC

Canada

- **Dominic D'Alessandro**, President and CEO, Manulife Financial
- **Bruce Flatt**, President and CEO, Brookfield Asset Management Inc.
- **David A. Ganong**, President and CEO, Ganong Bros. Limited
- **Richard L. George**, President and CEO, Suncor Energy Inc.
- **Linda Hasenfratz**, CEO, Linamar Corporation
- **Jacques Lamarre**, President and CEO, SNC-Lavalin Group Inc.
- **Gordon Nixon**, President and CEO, Royal Bank of Canada
- **Nancy Southern**, President and CEO, ATCO Group
- **Marc P. Tellier**, President and Chief Executive Officer, Yellow Pages Group Co.
- **Annette Verschuren**, President, The Home Depot Canada and Asia

Mexico

- **Armando Paredes Arroyo**, President, Consejo Coordinador Empresarial
- **Luis Berrondo Avalos**, Chairman of the Board, MABE
- **Ismael Plascencia**, President, Confederación de Cámaras Industriales (CONCAMIN)
- **Claudio X. González Laporte**, Chairman and CEO, Kimberly-Clark de México, S.A. de C.V.
- **Jaime Yesaki Cavazos**, President, Consejo Nacional Agropecuario (CNA) and CEO of several poultry companies
- **Eugenio Garza Herrera**, Chairman and CEO, XIGNUX, S.A. de C.V.
- **Daniel Servitje Montull**, CEO, Grupo BIMBO, S.A.B. de C.V.
- **José Luis Barraza**, Chairman, Aeroméxico
- **César de Anda Molina**, President and CEO, Avicar de Occidente
- **Guillermo Vogel**, Vice Chairman, Tubos de Acero de México (TAMSA), Chairman, North American Steel Council

United States

- **Campbell Soup Company**
- **Chevron**
- **Chrysler LLC**
- **Con-way Inc.**
- **ExxonMobil**
- **FedEx Corporation**
- **General Motors Corporation**
- **Kansas City Southern**
- **Lockheed Martin Corporation**
- **MetLife**
- **NBCU/General Electric**
- **Procter & Gamble**
- **UPS**
- **Whirlpool Corporation**

APPENDIX II: ABOUT THE SECRETARIATS

Canadian Secretariat



The **Canadian Council of Chief Executives** (CCCE) is Canada's premier business association, with an outstanding record of achievement in matching entrepreneurial initiative with sound public policy choices nationally and globally. A non-profit, non-partisan organization, member CEOs and entrepreneurs represent all sectors of the Canadian economy. The companies they lead collectively administer CAD\$3.5 trillion in assets, have annual revenues in excess of CAD\$800 billion, and are responsible for the vast majority of Canada's exports, investment, research and development, and training.

Building on its private sector leadership role in advancing the Canada-United States and North American Free Trade Agreements, the CCCE launched its North American Security and Prosperity Initiative in 2003. The Council's mission is "to make Canada the best place in the world in which to live, to work, to invest and to grow."



The **Mexican Institute for Competitiveness** (Instituto Mexicano para la Competitividad-IMCO) is a private applied research center devoted to studying issues that affect Mexico's competitiveness in a context of an open market economy. IMCO is a not-for-profit, independent, non-partisan institution which operates thanks to private sponsors grants. Founded in 2003, the Institute seeks to compete successfully in the "market of ideas" by preparing and issuing sound proposals for public policies based on objective approaches to systematically improve Mexico's ability to attract and retain investments.



The **Council of the Americas** is a business organization whose members share a commitment to democracy, open markets, and the rule of law throughout the Americas. The Council of the Americas' programming and advocacy aim to inform, encourage, and promote free and integrated markets for the benefit of the companies that comprise our membership, as well as of the United States and all the people of the Americas. The Council supports these policies in the belief that they provide an effective means of achieving the economic growth and prosperity on which the business interests of its members depend.



The **U.S. Chamber of Commerce** is the world's largest business federation representing more than 3 million businesses of all sizes, sectors, and regions. It includes hundreds of associations, thousands of local chambers, and more than 100 American Chambers of Commerce in 91 countries.