

***SECURITY AND PROSPERITY
THE DYNAMICS OF A NEW CANADA-UNITED STATES
PARTNERSHIP IN NORTH AMERICA***



**PRESENTATION TO THE ANNUAL GENERAL MEETING OF
THE CANADIAN COUNCIL OF CHIEF EXECUTIVES
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- ✓ Chairman, fellow Council members, special guests. Twelve months ago, here in Toronto, we agreed that redefining Canada's role and responsibilities in North America was the country's most urgent priority.
- ✓ The horrific events of September 11, the freezing of Canada-United States border flows during the days following the terrorist attacks, and the global war on terror demanded an urgent rethinking of the relationship.
- ✓ Well before September 11, the Council had committed itself to working with Canadians and Americans to update the Canada-United States partnership. You will remember that in our *Canada Global Leadership Initiative* in 2000 we said that "the bilateral trade, investment, regulatory, security and institutional relationship did not reflect the advanced level of integration between the two countries," and that "visionary leadership on both sides of the border was needed to move the partnership to a 21st century footing."
- ✓ The events of September 11 provided a powerful catalyst. Homeland security and economic security quickly became cross-border rallying cries.
- ✓ At the Council, we did not waste a moment. Throughout the past twelve months, we have been hard at work. We have carried out extensive research and analysis. We have consulted widely both in Canada and the United States, and with our partners in Mexico.
- ✓ Today, I am pleased to table our findings, a plan and a strategy for moving forward. This presentation is entitled, *Security and Prosperity: The Dynamics of a New Canada-United States Partnership in North America*.



CANADA AND THE UNITED STATES A DYNAMIC RELATIONSHIP

Ever closer social interaction and trade, investment, technology, environmental and military co-operation have resulted in the most interdependent relationship in the world.

- ✦ Total trade has more than doubled in value since 1994. We are each other's largest trading partner – with close to Cdn\$ 2 billion in cross border flows each day.
- ✦ We buy more goods from the United States than the 15 current members of the European Union (almost one quarter of American exports) and three times as much as Japan (with a population of 125 million versus 30 million).
- ✦ We are each other's most favoured destinations for foreign direct investment.
- ✦ More than 200 million people cross the border each year while 45,000 trucks cross the border daily.
- ✦ Canada is the largest energy supplier to the United States.



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- ✓ Ever closer social interaction and trade, investment, technology, environmental and military co-operation between Canada and the United States have resulted in the most interdependent relationship in the world.
- ✓ Total trade has more than doubled in value since 1994. We are each other's largest trading partner – with close to Cdn\$2 billion in cross border flows each day.
- ✓ Canada continues to enjoy the largest share of the United States import market (at 18.5 percent) of any country or region. As of the first half of 2002, United States imports from Canada were greater than all of the European Union members combined by 23 percent, from Mexico by 52 percent, from China by 67 percent, and from Japan by 74 percent.
- ✓ We buy more goods from the United States than the 15 current members of the European Union (almost one quarter of total American exports) and three times as much as Japan (whose population of 125 million vastly exceeds Canada's 30 million people).
- ✓ We are each other's most favoured destinations for foreign direct investment. More than 200 million people cross the border each year while 45,000 trucks cross the border daily.
- ✓ The United States relies on Canada for its energy security. Canada is the largest supplier of energy to the United States, accounting for:
 - 94 percent of natural gas imports;
 - almost 100 percent of electricity imports;
 - more crude and refined oil products than any other supplier, including Saudi Arabia, Iraq or Venezuela.



CANADA AND THE UNITED STATES AN HISTORIC OPPORTUNITY



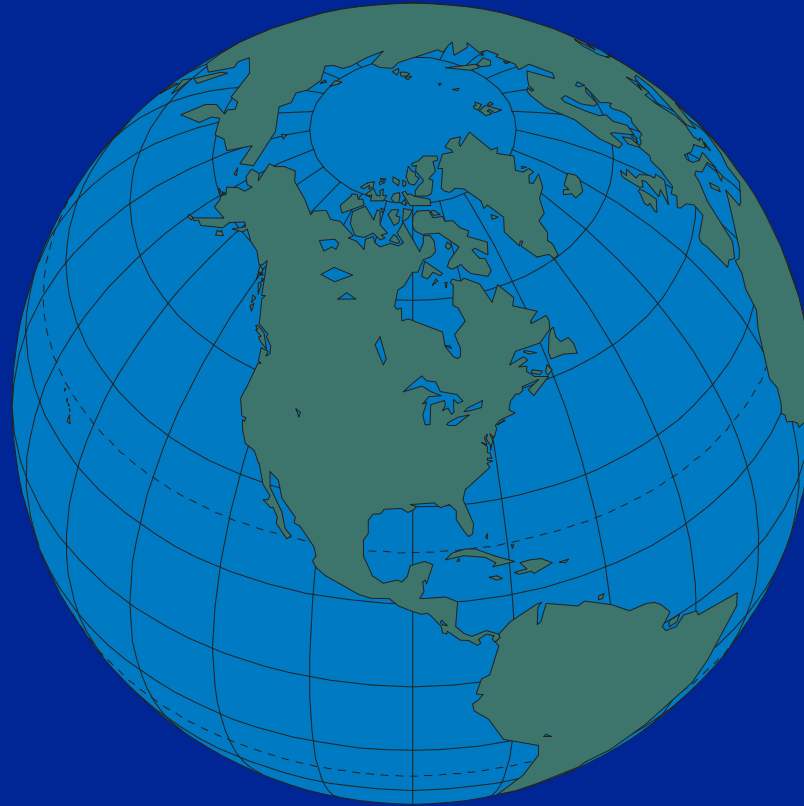


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- ✓ Two fundamental principles form the foundation of this presentation:
 - *The first is that North American economic integration is irreversible*
 - *The second is that North American economic and physical security are indivisible*
- ✓ The reality, however, is that the economic institutions that guide the flow of commerce between Canada and the United States are inadequate. The Canada-United States Free Trade Agreement, and its NAFTA successor, have not reconciled dysfunctional differences in laws and regulations nor constrained the power of special interests to interfere in the economic relationship.
- ✓ Our security arrangements are equally incomplete. Canada-United States co-operation remains largely rooted in Cold War structures and is only slowly evolving to respond to the imperatives of continental security and global terrorism. New administrative arrangements for border co-operation are useful but fall far short of fireproofing the border from political uncertainty.
- ✓ Canada and the United States face an historic opportunity – an opportunity that could be squandered if leaders in both countries fail to grasp the real potential that closer co-operation offers, or allow outdated concerns about sovereignty to cloud their vision. The potential is enormous and we begin with important advantages. The two countries already share a common space defined by geography, history, economics, demographics, shared political and societal values, common security arrangements and challenges, and joint economic arrangements and goals. The issue today is how, in the face of terrorist and other threats, the two countries can strengthen the relationship that already exists and make it work more effectively to our mutual benefit.
- ✓ Canadians must take the lead as we did two decades ago, when we stood at yet another critical crossroad. At the time, the crisis was not global terrorism. It was trade protectionism. We opted for a bold new vision – the Canada-United States Free Trade Agreement. On this choice, history has offered decisive proof. Canada and the United States made the right decision. We must make the right decision again.



CANADA, MEXICO AND THE UNITED STATES TOWARD CLOSER NORTH AMERICAN CO-OPERATION





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- ✓ As Canada and the United States face an historic opportunity, so does our southern-most partner in North America – Mexico. It too must come to terms with the continent's pressing security concerns and be able to benefit from growing integration between its economy and that of the United States and Canada.
- ✓ For Canadians, building ever-closer economic and political relations with Mexico must be a strategic priority – an objective that as your president I have vigorously pursued for more than a decade with our business counterparts in that country and with three Mexican presidents.
- ✓ We must also co-operate as Canadians, Americans and Mexicans in making the North American Free Trade Agreement work better. But we must do more together – much more. We must engage more fully in exploring how the three countries can act together to advance our common goals in North America. Of the three leaders of the countries of North America, it is President Vicente Fox of Mexico who has championed the most inclusive vision for the long-term future of the continent. This vision is a compelling one and deserves careful study.
- ✓ While our three countries have built much together in the last decade, the reality is that the Mexico-United States relationship is profoundly different from that of Canada and the United States. Each is characterized by a distinct set of opportunities, challenges and priorities. We must ensure that we take full advantage of the different assets we bring to these relationships as we build ever stronger North American economic and security co-operation.



SHAPING THE NORTH AMERICAN COMMUNITY: GUIDING PRINCIPLES

- ✦ Advancing trilateral co-operation and building the idea of a North American *community* must rest on one overriding principle: *uncompromising respect for the political independence and distinctiveness of Canada, Mexico and the United States.*
- ✦ This rules out a common market or supranational institutions such as a joint legislature, high court or armed forces.
- ✦ In the short-term, it means moving forward pragmatically, at times bilaterally, and at times trilaterally, with concrete measures to strengthen North American economic and security co-operation.
- ✦ In the long-term, trilateral co-operation might be best served by an all-encompassing agreement such as a *Treaty of North America* that would allow for the attainment of common goals in different ways and at varying speeds.



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- ✓ How best to pursue the common and differing challenges and priorities of the three North American partners requires both a clear vision and pragmatism.
- ✓ It helps to begin with a realistic definition of the North American *community* to which we should aspire. *Community* in this sense does not mean embracing the European Union model based on a commitment to eventual political integration. On the contrary, *community* here means *more effective management of economic integration and closer security co-operation while preserving the political independence and distinctiveness of Canada, Mexico and the United States*.
- ✓ Hence we can rule out a common market model with overriding supranational institutions. We can also rule out a single legislature, a single high court, a single armed forces, and, for the time-being at least, a single currency.
- ✓ In the short-term, Canada, Mexico and the United States should pursue stronger North American co-operation within a framework that combines both trilateral and parallel bilateral initiatives. The objective of these initiatives would be to advance in areas where Canada and the United States already have a uniquely strong basis to proceed and should be open at any time to Mexican participation. Similarly in areas where Mexico and the United States are uniquely able to take the lead, Canada should be able to accede if it wishes.
- ✓ In the long-term, trilateral co-operation might be best served by an all-encompassing agreement that I have referred to as a *Treaty of North America*. Such a treaty would allow for the attainment of common goals in different ways and at varying speeds.
- ✓ Let me turn now to the specifics of what Canada and the United States might pursue as they build a closer partnership.



THE CANADA-UNITED STATES AGENDA ELEMENTS OF A FIVE PART STRATEGY

Canada should take the lead by articulating a vision for closer North American security and economic co-operation.

It should then propose to the United States Administration the elements of a five-part strategy for a new Canada-United States partnership within a common North American vision.

The execution of the strategy would involve bilateral co-operation and individual initiatives in five areas:

- ✦ reinventing the border;
- ✦ maximizing economic efficiencies;
- ✦ building on resource security;
- ✦ sharing in continental and global security; and
- ✦ developing 21st century institutions.



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- ✓ Canada should take the lead by articulating a vision for closer North American security and economic co-operation. It should then propose to the United States Administration the elements of a strategy for a new Canada-United States partnership within a common North American vision.

- ✓ The strategy should focus on five carefully defined areas:
 - reinventing the border;
 - maximizing economic efficiencies;
 - building on resource security;
 - sharing in continental and global security; and
 - developing 21st century institutions.



THE STRATEGY -- PART I REINVENTING THE BORDER



***Truck traffic on the
Ambassador Bridge
has increased tenfold
over 30 years.***

- ✓ Shift the burden of border enforcement away from the internal border to approaches to North America globally.
- ✓ Eliminate anachronistic regulatory, procedural and infrastructure barriers at our internal border and maintain sovereignty through --
 - ✓ The availability of a shared North American identity document
 - ✓ A shared system for commercial processing
 - ✓ Shared infrastructure
 - ✓ Shared policing
- ✓ Oversee border management by means of a Canada-United States Joint Commission on Border Management.



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- ✓ The inadequacy of our borders is the most immediate threat to both national and economic security in North America. The September 11 attacks reminded us of this fact with stunning effect. Our border with the United States extends 5,525 miles (7,000 including Alaska), but 90 percent of cross-border movement takes place at just 20 crossings. On September 11 and the days following, the border effectively shut down. The world's largest two-way trading relationship was paralyzed.
- ✓ The *Smart Border Accord* of December 2001 negotiated by Deputy Prime Minister John Manley and Governor Tom Ridge was a very important step forward. However, its measures are meant primarily to improve the performance of the existing model.
- ✓ We need to reinvent this notion of the border. We should adopt a model that transforms the *internal border* into a shared checkpoint within the Canada-United States economic space. The ultimate objective would be twofold: to shift the burden of protecting our countries against global threats away from the internal border to approaches to North America globally; and to eliminate anachronistic regulatory, procedural and infrastructure barriers at our internal border. By making available on a voluntary basis a shared North American identity document and by developing a shared system for commercial processing, shared infrastructure and shared policing, we could substantially improve the flows of both people and goods across the border without threatening the sovereignty of either country.
- ✓ Canada and the United States should also pilot multilateral co-operation in securing container traffic to ensure that there is no need to interfere with this traffic within North America. Similarly, a shared approach to protecting legitimate visitors to North America could serve as the model for multilateral co-operation while maintaining sovereignty and the distinctiveness of policies related to receiving immigrants who are vital to our societies and of refugees to whose protection we are equally committed.
- ✓ Both countries should also undertake a *customs initiative* designed to reduce differences in Canadian and United States treatment of third country trade and eliminate the need for rules of origin and other burdensome customs requirements on most goods. *Oversight of this new approach could be entrusted to a Canada-United States Joint Commission on Border Management.*



THE STRATEGY -- PART II MAXIMIZING ECONOMIC EFFICIENCIES





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- ✓ Maximizing efficiencies and compatibilities that flow from an already highly integrated Canada-United States market makes a great deal of sense from both a security and economic point of view.
- ✓ Bilateral initiatives to this end would serve as a powerful catalyst to speed up the still incomplete integration of Canada's domestic markets.
- ✓ The two countries should apply the principle of '*tested once*' for purposes of the Canada-United States market with respect to standards, inspection and certification procedures, and other regulatory requirements where this is appropriate. Examples of such areas are the consumer and industrial goods sector, food safety and pharmaceuticals.
- ✓ They should examine regulations in key industries such as transportation, telecommunications, financial services and oil, gas and electricity to reduce or eliminate unnecessary divergences – in some cases through harmonization and in others through mutual recognition agreements.
- ✓ In the move towards greater compatibility, critical infrastructure vital to both countries should receive priority attention, in particular telecommunications and computer networks, pipeline capacity and electricity transmission, and road, rail and air linkages. Canada and the United States should take steps to achieve true "open skies" with respect to air travel.
- ✓ Both countries should cooperate in achieving the highest levels of environmental protection with an emphasis on clean air, water, the safe handling of toxics and hazardous waste.
- ✓ Three additional issues of significant sensitivity need to be addressed: the first is to assess the rationale for continuing to apply trade remedies in a de facto integrated market; the second is to remove where possible regulatory restrictions on access and ownership in big industries; and the third is to accelerate the removal of existing impediments to the mobility of skilled labour.



THE STRATEGY -- PART III BUILDING ON RESOURCE SECURITY





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- ✓ Canada and the United States benefit from a rich and interdependent resource market including oil, natural gas, electricity, coal, uranium, primary metals, forest products and agriculture. Ensuring the viability, integrity and security of this market is essential to the citizens and industries of both countries especially in a world periodically threatened by disruptions to global supply chains.
- ✓ With few exceptions, under the energy provisions of the North American Free Trade Agreement, trade moves without interference between Canada and the United States. As the largest single supplier of the energy needs of the United States, Canada occupies a favoured and strategic position. But as we have seen in the recent debate within the United States over possible subsidies for an Alaskan gas pipeline, there remain real and recurring threats to market-based principles that must be addressed by both countries.
- ✓ The relatively positive experience in energy trade regrettably has not been mirrored in the agriculture and forest products sector where trade actions and harassment have been an ongoing source of conflict. What is needed here is a major initiative aimed at resolving once and for all the controversial issues of resource pricing, subsidies, and regulatory incompatibility. The security of our countries depends on the assurance of uninterrupted resource flows among us.
- ✓ As part of Canada's overall strategy for a new North American partnership, a resource security pact should be negotiated based on two core principles: open markets and compatibility of regulatory frameworks.



THE STRATEGY -- PART IV: SHARING IN CONTINENTAL AND GLOBAL SECURITY





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- ✓ The preoccupation of the United States with national security is total. The evidence of its new doctrine is starkly evident in its Homeland Security initiative and articulated in the publication tabled last autumn entitled *The National Security Strategy of the United States of America*. In the words of President Bush, the country is at war and he has warned Americans that the struggle against terrorism will take a long time.
- ✓ It is in the face of this reality that Canada must come to terms, after too long a period of neglect, with its military and security obligations nationally, continentally and globally. The imperative that must drive Canada forward is based on three core assumptions: first we must be capable of making a vastly more effective contribution to the defence and security of our homeland – on land, along our coastlines and in our airspace. The choice is clear: either we affirm our sovereignty effectively, or we run the risk of losing it. The second assumption is that we must move to a new phase of co-operation with the United States in enhancing the defence and security of the continent. The third assumption is that Canada must be an effective player in the collective effort to combat terrorism globally.
- ✓ The task of rebuilding, re-equipping and retraining our armed forces is a massive one and will take time and significant resources. We must ensure that we are the best at what we choose to do. This will require a careful setting of priorities and the making of tough choices.
- ✓ As we move forward, several commitments must head the list. First, the number of men and women serving in the armed forces must be expanded. Second, the capability to transport our troops must be vastly improved. Third, we must allocate expanded resources to the securing of Canada's economic infrastructure and build a more effective capability for dealing with natural and man-made disasters. And fourth, we must enhance the interoperability of Canadian and United States armed forces on land, at sea and in the air including Canadian participation in a continental anti-ballistic missile system.
- ✓ A strong Canada-United States economic and security partnership will contribute to the enhancement of global security. But Canada's contribution cannot rest on bilateralism alone, nor can we pin our hopes on a vastly more effective Canadian military capability. Canada must apply its great experience and credibility as an advocate of multilateralism to confronting the terrorist challenge and to promoting world order. This we must do through the vigorous promotion of global trade, international development, good governance and peacekeeping, and through a well resourced Canadian foreign policy framework.



THE STRATEGY -- PART V **DEVELOPING 21ST CENTURY INSTITUTIONS**

**What is needed is a
commitment to a new partnership,
the cornerstone of which would be
co-operation based on mutual
respect for sovereignty**





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- ✓ The dynamic Canada-United States relationship as we know it today is no longer adequately served by existing national and bilateral rules and institutions. The North American Free Trade Agreement does not pretend to offer an all-encompassing and organic basis for managing the complex range of issues that flow from the political, social, economic, and security interplay among the signatories.
- ✓ As I argued at the outset, a European-style model characterized by supranational institutions is not an option. What is needed instead is commitment to a *new partnership*, the cornerstone of which would be cooperation based on mutual respect for the sovereignty of each country.
- ✓ The institutional framework that would govern the process will require careful consideration. It goes without saying that at the political level it must have the direct involvement of the President and the Prime Minister. Beyond that, it should be guided by creativity and flexibility. A large, bureaucratic superstructure is not what we need.
- ✓ The International Joint Commission has provided superb binational management for boundary waters over almost 100 years. It might provide a model for making the process work. Specialized joint commissions would work to foster co-ordination and to prevent and resolve conflicts. Their work could begin by addressing the four areas targeted for action in this presentation: reinventing the border; maximizing economic efficiencies; building on resource security; and sharing in continental and global security. While deriving their authority from their respective governments, these expert joint commissions in practice would operate with a certain degree of autonomy consistent with their binational character.



EXECUTING THE STRATEGY THE ROLE OF BUSINESS LEADERSHIP

Powerful synergies form the basis of a new partnership:

- ✦ Public and economic security are the highest priorities;
- ✦ Both countries are vulnerable to terrorism;
- ✦ Both countries rely on one another to guarantee the most effective possible defence against terrorism;
- ✦ National strength and resolve depend on a healthy economic base.

The interdependence of Canada and the United States has never been greater.

The time has come to transform our ideas into action with a highly focused, properly resourced effort aimed at building support in Canada and the United States for the elements of a new partnership.



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- ✓ Powerful synergies form the basis of a new Canada-United States partnership. Both countries have designated public and economic security as their highest national priorities. Both countries are vulnerable to and rely on one another to guarantee the most effective possible defence against terrorism. Both countries recognize that national strength and resolve depend on a healthy economic base. That economic base is increasingly a shared one. For these reasons, the interdependence of Canada and the United States has never been greater.
- ✓ Canadians recognize these realities: witness the recent reports of various parliamentary committees and the sharp rise in discourse on the future of the Canada-United States relationship and on Canada's options in North America.
- ✓ Canada's business leadership has a vital stake in the outcome of the discourse. Millions of jobs and billions of dollars in investment depend on the security of the economic space we share with the United States.
- ✓ During the past year, the Canadian Council of Chief Executives has been deeply immersed in the question of how we as a business community and as a country should come to terms with the awesome challenge before us. We have carried out studies, we have consulted, we have established a working group with our CEO counterparts in the United States and Mexico.
- ✓ The time has come to transform our ideas into action with a highly focused, properly resourced effort aimed at building support in Canada, the United States and Mexico for the elements of a new North American partnership.



A CANADIAN COUNCIL OF CHIEF EXECUTIVES ACTION PLAN





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- ✓ The first priority of the Council must be to develop a strong consensus among us around the principles and strategies that I have outlined for you this morning. The past twelve months of research and consultations with many of you leaves no doubt in my mind that the status quo is unacceptable and that as an organization we must pursue a new economic and security paradigm in North America.
- ✓ Equally important, we must work hard to help develop a consensus for action among interested Canadians based on two fundamental principles: that the measures we propose will *strengthen rather than weaken Canadian sovereignty*, and that *Canada must take the lead* in advancing ideas that will redefine our partnership with the United States, and also engage Mexico in shaping a longer-term vision for North America.
- ✓ As we work to build consensus, it is important that we engage the political leadership and key decision-makers in Canada, including parliamentarians and legislators – many of whom already have done considerable thinking on the future of Canada in North America.
- ✓ In the United States and in Mexico, we must advance our vision and test our ideas with the political leadership, legislators, and thinkers of those countries. Our existing co-operation with American and Mexican business leaders must intensify.
- ✓ If the Council is to succeed in this ambitious enterprise, we must assemble winning ideas, the best minds and the most effective organizational structure to help us. Crucial to our success will be the involvement of each one of you. Given what is at stake, I know that I can count on you. Mr. Chairman, I now look forward to what I am certain will be a vigorous and stimulating discussion.