

**Strengthening the Canadian-American
Partnership:
The Way Forward**

Speaking Notes for
The Hon. Perrin Beatty
President and CEO
The Canadian Chamber of Commerce

*The Hall Of Flags
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I want to thank all of you for coming here today, in addition to the excellent panellists who spoke this morning and Bennett Jones for once again sponsoring this annual forum.

The relationship between our two countries is of vital importance to the Canadian Chamber. This is why we value our partnerships with groups like the U.S. Chamber of Commerce and the Canadian-American Business Council that do great work on behalf of the business communities on both sides of the border.

Just over twenty-two years ago, America and Canada reached an agreement that removed many trade restrictions between our two countries and provided mechanisms for resolving trade disputes. The Free Trade Agreement was a triumph of pragmatism and a great victory for common sense. The world's largest trading partners agreed simply to trade freely. It's almost humorous to remember how radical and controversial it was at the time. Critics said Canada was surrendering its sovereignty, selling out its independence, sacrificing its social programs, and worse.

I was a Cabinet Minister in the government at that time and I vividly remember how the issue swamped Canadian politics. We fought and won a gruelling national election for free trade. In my rural riding, I remember my opponents claiming that, if free trade came into effect, it would mean the end of the family farm, the destruction of Canadian culture and the loss of Canada's ability to decide its own political future.

The fears about free trade were best captured in a Liberal Party TV ad that ran in the 1988 election. Here's how Professor Jonathan Rose of Queen's University's Political Studies Department described the advertisement:

The ad showed two men sitting on opposite sides of a table. The Canada and US flags on the table identify them as negotiators. As the deal is about to be finalized, the American says, "...there's one line I'd like to change." The earnest young Canadian negotiator replies, "Which line is that?" A pencil eraser begins to rub out the 49th parallel and the American says, "This line here. It's just getting in the way." The ad worked because it picked up on polling data that many Canadians were concerned that free trade would result in a loss of Canadian sovereignty.

As everyone here knows, the story had a happy ending. The family farm still exists in Canada. We still win the Olympic gold in hockey and our beer still tastes better.

As Canadian pollster and analyst Michael Adams has found over the course of years of study:

Despite much hand-wringing north of the border (particularly from the Left), my research suggests that economic integration has done very little to erode Canadian values. On the contrary, our values are increasingly diverging from American social values.

The significant point here is that doing business together doesn't turn us into pale copies of one another -- it simply makes us more prosperous.

And that is precisely what free trade between our countries has done. Since the Canada-U.S. FTA, and the NAFTA, which followed close behind, bilateral trade has almost tripled.

There is no doubt Canada benefitted from the FTA. For most of the 20th century, exports of goods and services fairly consistently made up about 25 percent of Canada's GDP; since 1990 exports have

accounted for 36 percent of GDP. That is why public opinion polls in Canada, which portrayed a deeply-divided country in 1988, now show consistent and strong support for the agreement.

For the U.S. too, the FTA and NAFTA ushered in a period of tremendous growth. U.S. exports to its NAFTA partners have risen 135 percent in the years since the agreement was enacted. In fact, in the decade after NAFTA was signed, US employment increased by 20 percent.

Despite the tremendous benefits of this relationship, it's clear the benefits and the assumptions of that Free Trade Agreement are no longer sufficient for today's realities. As former U.S. Ambassador Gordon Giffin has said, the clothing we made for the child no longer fits this adult relationship.

The economic compact between America and Canada is visibly threadbare, particularly as delays and other compliance costs in crossing the Canada-U.S. border increasingly eat up up the benefits that came from eliminating tariffs. The rapid growth enjoyed by both

Canada and the U.S. during the 1990s is waning. In 2009, Canadian exports to the U.S. fell 26.7 percent from 2008, while American exports to Canada decreased by 21.6 percent. While a portion of this decrease can be attributed to the financial crisis, trade in manufactured goods has been steadily dropping since 2005. This is clearly a cause for concern. And the list goes on. For example, overnight travel by Americans to Canada has fallen off sharply since 2002. In 2009 it reached its lowest level in ten years.

New Hampshire, a state that borders the province of Quebec, now does more trade with Mexico than it does with Canada. In June, New Hampshire Senator Jeanne Shaheen noted: “In 2009 — and for the first time since I can remember — Mexico actually overtook Canada as our state’s largest market for exports.... For a border state that has historically held extremely close economic ties with Canada, this is quite disconcerting.” Last year, exports to Canada from New Hampshire fell by nearly 30 percent while exports to Mexico *rose* nearly 40 percent.

Protectionism

The future of both of our economies depends upon our ability to take on the most innovative competitors we have ever faced. The old adage of “united they stand, divided they fall” could not be more true than it is today.

The United States is struggling to emerge from the worst recession in recent memory, with an unemployment rate of 9.6 percent. Millions of American citizens are worrying about how they will pay their bills and keep a roof over their heads. Businesses also continue to suffer from the fallout of the global economic crisis. Obviously, job creation and the economy are at the forefront of the U.S. policy debate.

I cannot claim to have a simple solution that will solve America’s economic woes – we are, after all, in the midst of a revolution that is transforming the global economy. However, I can guarantee that short-sighted policies designed to protect jobs at the cost of trade will only end up having the opposite effect.

As Dallas Federal Reserve President Richard Fisher warned last year, “Protectionism is the crack cocaine of economics. It may provide a high. It's addictive and it leads to economic death.”

Protectionism can derail the recovery, drag down future growth and undercut the ability to increase incomes. It also hurts the very people it is meant to protect. Protectionism may be good politics, but it's terrible economics. The first loser, of course, is the consumer. It's not the expensive, shoddy products that protectionist measures target. It's low cost, high quality goods that are the threat. And, of course, protectionist measures generate demands for retaliation, which is why U.S. business associations like the U.S. Chamber of Commerce, the National Association of Manufacturers and the Canadian-American Business Council have spoken so strongly in favour of open markets.

One of our board members – a person intimately involved with global markets said bluntly: “America is out of the trade game.” He says the political obstacles to further trade liberalization are too severe to be overcome in the United States today. We remember what the astute

Whig politician, writer and historian Lord Thomas Babington Macaulay wrote 186 years ago: “Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular.”

Can a new generation of trade agreements be sold to a sceptical population, suffering and afraid in the wake of a terrible recession?

Part of the campaign to persuade the populations to embrace a new trade effort is just telling the story. The Heritage Foundation said it well. “We will have to be even more persistent in proclaiming the virtues of free trade and in directly relating the benefits of free trade to average American households if we are ever to consign Lord Macaulay's lament to the ash heap of history.”

Each year, there are over 200 million individual border crossings between our two countries. Total trade between Canada and the U.S. in 2009 was worth C\$593 billion (US\$564 billion). That's approximately one million dollars per minute. Almost 20 percent of

U.S. exports were destined for Canada, an economy that is about one-tenth the size of the U.S. economy.

For every dollar that Canada sells in the U.S., America gains 94 cents worth of sales in Canada. Canadians take their earnings from sales in the U.S. and use them to buy American products. Compare that to the 23 cents per dollar of imports from China.

It is not surprising that such a strong economic partnership contributes significantly to job creation. Eight million American jobs depend upon America's trading relationship with Canada. But perhaps it's a little surprising to see where those jobs are. Lots of jobs in Illinois depend on Canadian trade -- that's understood. But even more jobs are in Texas. Trade with Canada helps the American economy and employs a significant portion of the population in every single state.

We also have a real-time opportunity to connect to evolving U.S. policy. Canadians noted with interest President Obama's call to

Americans to double global exports in the next 5 years – a target that would create some 2 million jobs.

This is a dramatic goal, with huge potential benefits. But America's customers can't simply buy. They need to sell too. Trade, as always, is a two way street, and a win-win proposition.

If America is going to achieve this ambitious goal, Canada will be one of the main reasons. We are wealthier than Colombia, we are closer than Korea and we are friendlier to America than any other country. It's not surprising the Export Promotion Cabinet has recognized the importance of Canada to American exporters, including small business.

I believe that it is time for the national leaders to commit the United States and Canada to a new generation of negotiation, to take the Canada-U.S. partnership to a higher level. The time is right, and the need is apparent.

I suggest that three areas present themselves not just as urgent policy concerns, but also as opportunities for America and Canada to embark on a new relationship.

The Border

The first opportunity is the Border.

Consider this: the Europeans, who have fought at least twenty significant wars among themselves in the last 200 years still extend to each other the freedom to trade without restriction. Every day, trucks carry goods freely across borders once stained with the blood of combatants.

Meanwhile, on a border between the two closest friends in the world, where hostilities have been largely *unknown* for two hundred years, trucks and cars wait in endless traffic jams.

Winston Churchill once characterized the Canada-U.S. border in this way: "*that long frontier from the Atlantic to the Pacific oceans,*

guarded only by neighbourly respect and honourable obligations, is an example to every country and a pattern for the future of the world."

It's deeply ironic that the future he foresaw has emerged...in another continent.

Canada and the U.S. have been doing an effective job of making our border a wall. A new, more modern, and effective border policy is needed. Instead of serving as a physical division between us, the border must be reconceptualised as another stage in the supply chain. The border of the future is a process, not a place.

In the 21st century, borders exist wherever sovereignties intersect. We can't fortify physical borders and hope that they will be enough to keep us safe. Increasingly, commerce takes place in cyberspace, where threats must be confronted collaboratively to eliminate threats where they originate. This 21st century reality provides an example of how we need to envision the border across the economy, rather than across the landscape. Last year the Canadian Chamber of Commerce and the U.S. Chamber of Commerce, in partnership with

forty-seven business associations, released a joint report on the border. This report put forward short-term, practical recommendations for making the Canada-U.S. border more secure and trade-effective.

A perimeter approach to border policy would allow us to intercept threats before they reach our shores and to manage risks without militarising the border. And, when you are looking for a needle in a haystack, you need to shrink the size of the haystack. In security terms, that means removing legitimate travelers and cargo from the queue while focusing on the areas of highest risk.

An inefficient border has serious economic costs, especially given the integrated nature of our supply chains.

For example, an automobile manufactured in North America can cross the border several times during the various phases of production. Each time the car is subjected to customs and security clearance and runs the risks of encountering delays. In comparison, a shipment containing hundreds of foreign manufactured cars only has

to bear these burdens once. We are effectively discriminating against our own industrial base as a result of bad public policy.

Improving the functionality of the border must have three outcomes. First, it has to make North Americans more secure by increasing participation in trusted traveller and trusted trader programs. Doing so will allow border agencies to focus their limited resources on areas where they are needed most. Second, it has to improve the predictability of the border in terms of wait times, inspections, fees, service commitments and standards. Third, better management of border, particularly in terms of joint infrastructure investment would facilitate the movement of people and goods. A key place for us to act immediately is Detroit where a second bridge is badly needed. As part of the Canadian government's stimulus program, border infrastructure was heavily targeted, but the U.S. side did not match those investments. More can and must be done.

Regulatory Cooperation

There are many areas where we develop similar policies because it makes sense for us to do so. For example, Canada is bringing itself into line with the protection most other industrialised countries provide for their intellectual property. We are doing so because we recognise that protecting intellectual property will attract the investment we need to build a more innovative economy and will result in more fair treatment for our artists and other creators.

However, not all differences in our laws and regulations are resolving themselves so well. Differences in regulatory practices are a significant hurdle for businesses, and they provide a third opportunity for us to move ahead to the benefit of both of our countries. We all know that non-tariff barriers to trade can be just as costly as tariffs, and harder to identify. We heard this morning of the costs of regulatory disharmony to both Canadian and American businesses.

Bell Helicopter Textron is a prime example. A producer of commercial and military vertical lift aircraft headquartered in the U.S. with operations in Canada, Bell serves both U.S. and Canadian forces and

commercial customers. Worldwide companies like this one are the first to suffer from needless conflicts between regulatory regimes.

Variations in health and safety standards, product labelling, emission controls, food testing and other areas must be addressed. Where there is a legitimate difference between Canadian and American approaches, a different regulatory structure can be justified. But more often, it seems to us, the case for commonality is overwhelming. We need to eliminate the “distinctions without difference” that are costing time and money for no public advantage. This goal can be accomplished through mutual recognition, alignment or the adoption of common policies.

The transportation sector is a clear example of an area where Canada and the U.S. must co-operate. Trucks, trains and aircraft are built in both countries, intended to operate in both countries, carrying the same goods and people in both countries, but are subject to a forest of different regulatory regimes. Is there a major difference between trucking in North Dakota and southern Manitoba? Someone

is benefitting from these elaborate regulatory systems, but it's not the public.

Another example is the agri-food sector. Food processing remains one of the most heavily regulated industries in North America, and fair enough, given the safety implications. Yet the outcomes from our regulatory systems are so similar that the hundreds of thousands of people crossing the border each day feel no threat to their health and safety. The lunch you enjoyed here today poses no greater threat to your health than a similar lunch served in Ottawa.

Energy & Environment

Energy and the environment provide an important third opportunity for us to work together. According to the International Energy Agency, global consumption of energy is projected to increase by 40 percent between now and 2030 if government policies don't change. North America alone is expected to consume 20-25 percent more energy than it does today. As consumption continues to increase, so may America's dependence on dangerous and unstable parts of the world.

Energy security will become an increasing concern for the America. This is literally a matter of national security.

With our rich, stable supply of a wide variety of energy sources, Canada is the key to U.S. energy security. However, Washington has become saturated with negative rhetoric about “dirty” Canadian oil.

Canada has to be honest about the challenges of the oil sands and about our progress in minimizing the environmental footprint. We must also do a better job of telling our story, pointing out that the environmental impacts generated by the oil sands are predictable, manageable, and reducible. For example, Alberta became the first North American jurisdiction to legislate GHG reductions for large industrial facilities – those emitting more than 100,000 tonnes of carbon dioxide equivalents per year. In just over three years, there have been more than 17 million tonnes of actual reductions by companies in all industries. This is equivalent to removing 3.4 million vehicles from roads – every year. How many sources of American oil can tell the same story?

I also want to note that Canada's contribution to North American energy security is more than just oil. We are the largest producer of uranium for fuel, the second largest producer of hydro-electricity, the third largest producer of natural gas, the sixth largest producer of crude oil, the seventh largest producer of nuclear energy, and the ninth largest producer of petroleum products. We are the largest single supplier of energy to the U.S. and the single largest consumer of American energy exports. Many investors have substantial stakes in Canadian energy production.

As a vivid illustration of the potential for both countries in energy cooperation, we need look no further than the massive Keystone Pipeline project, initiated this year by TransCanada. A giant energy artery would connect Canadian supply with the Gulf Coast refineries. The Keystone project has the potential to supply 1.1 million barrels of oil to the U.S. every day, through the environmentally safest transportation mode.

Energy and environment are increasingly two sides of the same coin.

Pollution doesn't acknowledge national borders, nor does climate change. We share a common environment and it makes sense to coordinate our policies and regulations to create the progress our citizens demand while minimizing the costs to business.

I am pleased that our governments have been collaborating in this area. They have laid out the framework for cooperation in energy science and the development of green technology. Both countries must make massive new investments to develop innovative green technologies.

I am pleased by the fact that Canada has committed to a greenhouse gas reduction target that is consistent with the U.S. figure. It is imperative that our environmental policies remain compatible.

Conclusion:

The Canada/United States relationship is the biggest, closest alliance in the world. But our alliance needs new goals, new challenges to undertake together. Achieving them will make us better friends and

better business partners. We will each be more prosperous as a result.

I don't pretend that working more closely with one another will be either easy or free of criticism. Above all, it will require political vision and courage. But, in the interests of all of our citizens, it's time to move ahead.

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