

## Enhancing the Canada-U.S. Trade Relationship

Canada and the United States have a special relationship built on shared values and a long history of family, friends, and visitors living on both sides of the border. The United States is our number one international trade partner. After all, *we build things together*, with \$1.6 billion in two-way trade crossing the border every day – one-third of which is the intra-company delivery of input materials. We need to ensure that two-way movement of goods and services can flow freely across the border from both sides.

The current economic downturn is causing many countries to put in place trade and investment barriers to protect domestic industries. The United States is not immune to these domestic pressures and has started introducing its own protectionist measures. For example, the 'Buy America' provisions in the U.S. stimulus package have blocked Canadian companies from bidding on \$280 billion worth of state- and municipal-level procurement projects. In addition, after years of negotiations, the United States recently put in place new country-of-origin labeling (COOL) requirements that met the integrated needs of U.S. food processors and Canadian livestock and meat producers. Unfortunately, the U.S. Secretary of Agriculture is urging U.S. food processors to "voluntarily" follow stricter labeling requirements that would put at risk co-mingling of Canadian and U.S. livestock and remove the COOL exemption for Canadian beef and pork exports that go for further processing in the United States. One Canadian food processor said that the stricter requirements could put at risk over \$290 million in pork exports. Other pieces of legislation that have similar buy local and protectionist measures are making their way through Congress.

In addition to striving for an open trade and investment market, Canada and the United States need to make sure that their shared border facilitates the movement of goods and services. Unfortunately, businesses on both sides of the border are dealing with growing border-related costs such as lengthy wait- and inspection- times, direct fees for crossing border, and costs for participating in trusted shipper and traveller programs. In the summer of 2007, border wait-times doubled, sometimes adding up to several hours and putting an end to just-in-time delivery practices. Participation in trusted shipper programs can cost hundreds of thousands of dollars and take up to two years to become certified, yet participation does not lead to fast enough and more predictable border crossings to justify the costs. The APHIS fee costs Canadian and U.S. companies that use the border approximately \$78 million per year. These costs and the associated delays they entail erode the advantages Canadian and U.S. companies had from preferential treatment in each other's markets. The worst part of all is that these border costs apply disproportionately to our lowest-risk goods and people.

Border infrastructure constraints add to increasing wait-times. Over 40 percent of Canada-U.S. two-way trade moves through the Windsor-Detroit region using outdated and overburdened infrastructure. Lengthy wait-times are common at the two bridges in the area. The Detroit River Rail Tunnel, built in 1909, can't handle the newer and higher double-stacked containers and auto-max railcars. Participants in trusted shipper and traveller programs are finding that they often have to wait in lengthy border lineups until they get to their dedicated lanes for expedited border crossing. The Canada-U.S. free trade agreement heralded an unprecedented integration of our two countries'

economies, but unfortunately, was not supported by necessary changes in our border infrastructure.

Overlapping regulatory systems are holding us back from reaching the full benefits of an integrated and tariff-free economy. Our regulatory approaches and regimes are similar, with many tests and certificates duplicating one another. Yet, the *tyranny of small differences* between our regulatory regimes imposes significant costs on Canadian and U.S. manufacturers, exporters, transportation service providers, and consumers (estimated by the OECD to add between 2% to 10% to operating costs). Differences exist in, amongst other things, health and safety, security, technical, environmental, and product packaging and labeling requirements. Regulatory equivalency and cooperation will ease the movement of goods and services at the border, promoting greater efficiency and economic growth for both Canada and the United States.

Differences in trade policy and its implementation are also of concern. A lack of alignment or effectiveness in the systems and practices of one country create unintended consequences for the region. Investment and trade decisions are impacted by the effectiveness of all policy and legal procedures, including trade remedies. Canada and the United States should build on their strong history of close cooperation on trade policy matters, including their international negotiations at the WTO and elsewhere, in order to minimize policy 'gaps' that detract from the overall competitiveness of the North American economy.

An emerging area of concern for businesses in both Canada and the United States is the uncertainty created by proposed environmental regulations. Potential divergences between regulatory systems in the two countries create the risk of unintended trade and investment distortions. To minimize these risks, the regulatory systems and any potential 'border measures' to govern traded products into either Canada or the United States should be pursued on a North American basis with an objective of joint recognition, compatibility, and alignment of regulatory systems. Canadian exports should not be impaired on the basis of lack of alignment on environmental policies with the United States.

Despite having 7 million jobs in the United States and 3 million in Canada that rely on a strong Canada-U.S. partnership, we have not completed a formal border contingency plan to be used in the event of a full or partial closure of our land, air, and sea border points. A terrorist attack, a pandemic, or a natural disaster could close down the 49<sup>th</sup> parallel. Right now, we don't have a plan to prioritize the movement of goods and services during a border closure to make sure that 'what needs to get across' can do so. A process to re-open the border following the emergency should also be part of the plan.

We applaud the progress made by the Canadian and U.S. governments to put in place a communication and coordination plan to be used during a border disruption. Further, the Canadian government is in the process of testing its own prioritization framework. As a next step, we need both governments working together and with relevant stakeholders to finalize a bilateral plan and communications strategy.

## **Recommendations**

That the federal government engages the U.S. government and the business communities in both countries on:

1. Increasing market integration, market access, and economic efficiencies between the two countries.
2. Adopting a risk-based approach to border management by expediting the movement of low-risk goods and people. Participants in trusted shipper and traveller programs should be granted faster and more predictable border crossings versus unknown trade and travellers.
3. Enhancing our air, land, and marine border infrastructure so that it meets the demands of the integrated Canada-U.S. economy .
4. Facilitating regulatory equivalency where it makes sense and seek regulatory cooperation on a sectoral basis.
5. Seeking greater North American alignment of domestic and international trade policies and remedies, as appropriate.
6. Ensuring that environmental regulation in either Canada or the United States is pursued where possible on a North American basis (e.g. joint recognition, compatibility, or alignment) and do not result in trade impairment or distortion.
7. Putting in place a bilateral border contingency plan with a prioritization framework and communication strategy for both restricted (i.e. limited border closure) and exceptional (i.e. full border closure) circumstances.