



**The Future of the Canadian-American
Partnership:**
A New Strategy for Engagement

Speaking Notes for
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The Canadian Chamber of Commerce

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Check against delivery

I want to start by thanking Scotty for the invitation to speak to you today and Phil for his kind introduction. It is always a pleasure to discuss Canada-US relations with a group that is so interested and as well-versed in the issues as you are.

The relationship between our two countries is of vital importance to The Canadian Chamber, which is why we value our partnership with groups like the Canadian-American Business Council and the US Chamber of Commerce that do great work on behalf of the business communities on both sides of the border. We were also enormously pleased to establish a direct presence on the ground in Washington earlier this year through a brand new partnership with Paul Frazer and his colleagues at 3Click Solutions.

The timing of this event could not be more appropriate. As we emerge from the recession and prepare for the G20 meetings Canada will host in a little over two weeks, we need to work together to strengthen the North American economy. Our goal should be a renewed Canada-US partnership, with respect for the sovereignty and cultural and political distinctiveness of each country, and with

greater prosperity and security for our citizens. The world has changed dramatically in the last two years – far more extensively, I believe, than most of us understand. The future of both of our economies depends upon our ability to take on the most innovative competitors we have ever faced - of that there is little debate.

Particularly as Canada gets ready for the G20 leaders, there is plenty of debate on how we can best ensure our economic success. And nowhere is the discussion more heated than here in Washington. On one side are those who believe the key to economic recovery lies in tackling domestic unemployment at any cost. On the other are those who recognize that the integrated nature of the North American market prevents success through isolationism. The old adage of “united we stand, divided we fall” could not be more accurate than in today’s world of insecurity and protectionism. We will either succeed together or we will each fall behind.

The world is a profoundly different place for the United States than it was just two years ago. Not only is it under the direction of a relatively new administration, but it is also coming out of the worst recession in

recent memory. As of April of this year, 15 million Americans were unemployed and businesses still continue to suffer from the fallout of the global economic crisis. As the US starts down the road to recovery, there is ongoing pressure to secure domestic jobs, sometimes at the cost of trade. For politicians looking for ways to prove that they are standing up for their constituents, protectionism provides a seductive but ultimately destructive way to respond.

The question for Canada is how to be seen in Washington as what we truly are: American's neighbour, her largest trading partner and her closest friend. With each year that passes Canada expands its ties with countries throughout the world, yet our unique relationship with the US remains by far our most important. Take, for example, our ongoing negotiations with the European Union, which are important to us, but which, if successful, will result in annual gains that are equal to only a fraction of our trade with the US. For Canada, the North American market is not a myth – it is a reality of our day to day lives.

Background of the Canada-US Relationship

Canada and the US enjoy one of the most prosperous relationships in the world. Our close partnership is much more than an accident of history and geography. It is also a result of our shared values, common language, business relationships and family ties. We are not simply cohabitants on a continent. Instead, those values of freedom and respect for individual differences that helped make you a target for terrorism on 9/11 are precisely the values that make us allies in Afghanistan, where the 147th member of the Canadian Forces gave his life earlier this week.

What we share in common is extensive, and it touches every aspect of our two societies. Our citizens benefit from this connection. Everyone in this room is familiar with the strength of the Canada-US relationship, but it is still worth reviewing the facts:

- Each year there are over 200 million individual border crossings between our two countries.
- Since NAFTA entered into force in 1994, the total of two way merchandise trade between Canada and the US has grown by more than 120%.
- In 2008, bilateral trade totalled more than \$596 billion.

- Millions of jobs on both sides of the border are dependent upon the hundreds of billions of dollars of annual bilateral trade.
- Canada remains the largest export market for 35 US states and the US does more in two-way trade with Canada than it does with Germany, Japan, China and the UK combined
- Our relationship has resulted in some of the most effective cross-border arrangements in the world. The success of NAFTA and NORAD are perfect examples of what we can achieve when we work in unison.

While our countries are already closely united by our successes from working with one another, we are also united by the challenges we have yet to overcome. We can all list issues where simple common sense says we should work more closely together: pandemic planning, climate change, energy security, trade, the environment, regulatory reform and security are all areas where we can achieve much more by collaborating than we could ever hope to accomplish independently.

Another challenge facing our governments is the long-term economic stability of North America. The recent and dramatic shift in global trade trends will affect both of our economies. The rise of regional trade blocks and the continued offshoring of production to rising powers like China will greatly affect the North American economy in coming years. We need to do a better job of leveraging our strengths in the face of such growing competition.

We have two options. We can continue to allow North America to find its way without a coherent plan or we can chart our own course. For my part, I prefer the bolder strategy. We must stop thinking about Canada-US relations only in terms of whatever issue tops today's newscast, and envisage where we want our countries to be in fifteen years. This longer-term approach engagement can make us both more secure and more prosperous.

Charting our Course

Opponents of a closer partnership argue that such attempts are a wasted effort, that even if a closer relationship was desirable – which they dispute – Canada remains too low on an American priority list that is already overloaded.

They are not entirely wrong. As the smaller economy, Canada needs to take the initiative and promote our national interest in our relationship with the US to the benefit of citizens and businesses in both of our countries. And Canadians must reach down deeper into the US. We have historically looked to the northern states for support in times of need, but the attention here in Washington is increasingly being directed towards the southern border. Canada faces growing competition for space on the American policy agenda and we need to be far more creative about how we make our case.

Canada-US relations have slipped considerably in priority compared to where they were when I was in government. Too often, we have allowed small differences to undermine an otherwise successful relationship. If we are not careful, we risk allowing minor irritants to steer us off course. We cannot afford to lose sight of the strength of

our connection. There will always be periodic strains like Buy America or softwood lumber or occasional political tensions between governments, but the integrated nature of our supply chains and the reality of the North American market should persuade us of the need to keep us on track.

There are plenty of areas for improvement. Later this year, the Canadian Chamber of Commerce will release a major report on Canada-US relations. This report will look at the areas where it makes the most sense for us to work together, but let me touch on some of these issues today.

Trade

The most obvious is the need to secure our trade relationship. Thanks to the Canada-US Free Trade agreement and NAFTA, Canada and the US enjoy the largest trade flow in the world. A million dollars US of trade takes place every minute, twenty-four hours a day, seven days a week, fifty-two weeks a year.

That's quite remarkable considering that Canada absorbs more exports from the US than all of Europe – a market fifteen times our size. Canada also exports a great deal to the US. In 2008, Canada exported more than C\$380 billion worth of goods and services to the States. Canada is also the single largest supplier of foreign energy to the US, making up 18% of American natural gas imports and providing 17% of oil. Yet, despite the historic strength of our business relationship, merchandise trade between Canada and the US has been in decline since 2005. Growing international competition, including the game-changing swing towards China for manufacturing, has led to a very different global business environment, and this trend is cause for concern.

What is clear is that we are only scratching the surface of what we can do together. Numerous non-tariff barriers to trade continue to hinder the strengths of our unique relationship, including the advantage created by our geographic proximity and similar language. Any actions that restrict the natural flow of trade between us are much more than just counter-productive. They are highly destructive.

It won't surprise you that Canadians are still smarting from the Buy American restrictions that closed down much state and local procurement to Canadian companies and continue to present barriers even after our two countries agreed to ensure reciprocal access to each others' markets.

Protectionism may be good politics in the short term, but it is terrible economics, and the first loser is the taxpayer. There is no pressure to shut out inferior bids. Instead, it's the companies that offer that offer better products or lower prices that domestic competitors want to exclude. And, of course, protectionist measures generate demands for retaliation, which is why major US business associations like the US Chamber of Commerce and the National Association of Manufacturers have spoken so strongly in favour of open markets.

Both of our countries benefit from their access to the very best products our businesses can produce. In our case, the billions of dollars of purchases we make from you each year enrich our lives and help us compete in world markets. It would be foolish to think that

we would somehow be more prosperous or have a higher quality of life if we shut our doors to your businesses.

And the same applies to you. Consider, for example, the current crisis in the Gulf, where Canadian companies are helping to defend the fragile ecosystem from the ongoing environmental catastrophe.

While most Americans may never have heard of MacDonald Dettwiler, a Canadian company that operates two radar satellites built by the Canadian Space Agency, the images it provides are helping US authorities track the progress of the oil slick and plan their countermeasures.

MacDonald Dettwiler's satellites, Radarsat 1 and 2, monitor differences in surface roughness. Because oil-contaminated water is smoother, it is possible to get a clear picture of what is happening at all times of the day, something optical satellites cannot provide.

Canadian businesses are also helping to fight the spill in other ways as well. For example, Canadian manufacturers are helping control the damage by producing oil booms to contain the oil.

Two companies from British Columbia, Canadyne Technologies and Versatech Products, have been key suppliers of these containment booms and they have dramatically stepped up their production to help meet the demand before more damage is done. Versatech alone has already supplied 45,000 feet of booms and is shipping a further 10,000 feet each week.

When the livelihoods of tens of thousands of families and the survival of precious wetlands and wildlife hang in the balance, having a neighbour who can supply vital services and goods is more important than the flag on the factory.

The Border

How we manage our common border is another area where we need to do much better. While our main competitors find ways to tear down barriers to trade, Canada and the US have been doing a very

effective job of making our border a wall. It is easy to understand why we take security so seriously - the failed aircraft bombing last Christmas is a prime example - but there is also an urgent need to rethink how we manage the border. The 49th Parallel has become a major hindrance to legitimate trade and travel. The EU has systematically dismantled internal borders to facilitate the movement of legitimate people and goods while we have been fortifying our common border. It is time for a new approach.

We need to remember that in the 21st century, frontiers exist wherever sovereignties intersect. We can no longer simply fortify physical borders and hope that they will be enough to keep us safe. Take for example cyberspace, which requires collaboration with other nations to eliminate threats where they originate. And, of course, creating a modern-day Maginot Line does little to counter the growing threat of domestic terrorism. The 21st century reality provides a powerful incentive to push our borders out through an intelligence-based approach to intercept threats before they reach our shores.

We've made some progress over the past several years to improve the efficiency of our border, yet more needs to be done. An important starting point is the imminent vote in the Michigan Senate that will decide whether the state will accept Canada's offer to finance a much-needed new crossing between Detroit and Windsor.

We also need to better coordinate our customs and immigration policies. We have already started to align trusted trader and traveller programs. And there is a dire need to jointly plan our investments in border infrastructure and staffing.

A thick border has serious economic costs, especially given the integrated nature of our supply chains. Companies that conduct cross border business are forced to stockpile their inventories because they cannot guarantee that their shipments will arrive as scheduled. The shift from just-in-time to just-in-case delivery models imposes high costs on shippers which in turn decreases productivity and costs jobs.

The layering of regulations and restrictions at the border hinders our industries' ability to compete. For example, an automotive

manufactured in North America crosses the border several times during the various phases of production. Each time the car is subjected to customs and security clearances 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.

The border between Canada and the US will never truly disappear -- indeed, few of us would want it to -- but we urgently need to improve how it functions.

Regulations

North American companies shoulder the costs of complying with various regulatory barriers, and not only at the physical border. Such non-tariff barriers, which can result from relatively minor differences standards in health and safety, product labelling, emission controls, food testing and other areas must be addressed, whether through mutual recognition, alignment or the adoption of common policies. The competition between our two systems has already resulted in a

regulatory environment that imposes significant economic, environmental and health impacts on our citizens.

Opponents of regulatory alignment argue that our citizens would be at risk from a “lowest common denominator” approach to standardization or point to a loss of sovereignty. Neither claim holds up to scrutiny. 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. A sandwich bought in Washington poses no greater threat to a consumer’s health than a sandwich bought in Ottawa. Unfortunately, the costs of competitive regulation are easily quantified.

Take for example the Great Lakes and St. Lawrence Seaway where shipping companies operate under twelve different regulatory jurisdictions: Canadian and American federal governments, the provincial governments of Quebec and Ontario, and the state governments of Ohio, New York, Illinois, Indiana, Michigan, Minnesota, Pennsylvania and Wisconsin. This patchwork system of regulations imposes major costs to businesses operating in that

region. For example, the US Environmental Protection Agency Vessel General Permit (VGP) has resulted in eight separate regulatory requirements for the management of ballast water. This is in addition to the Canadian requirements. Ensuring compliance with the various regulations is hindering the ability of companies to grow and dampening the economic competitiveness of our economies.

The Environment

Another area where we must work together is in developing our environmental strategies. Pollution doesn't acknowledge national borders. We share a common environment and it makes sense to coordinate our policies and regulations to make the progress our citizens demand while minimizing the costs to business. We are too closely intertwined to allow for unnecessary friction caused by incompatible environmental regulations. Our citizens understand that reality. A 2009 NANOS poll indicated that almost 94% of Canadians believed that our two countries must collaborate on environmental policies.

Our governments have been making good progress in this area. They have laid out the framework for co-operation in energy science and the development of green technology. We are also moving forward in terms of carbon capture and storage and regulations targeting greenhouse gas emissions in new vehicles.

As the smaller economy, Canada needs to coordinate our policies with those adopted by the US and to develop a strategy to ensure that our interests are on the table. We have to do a better job of understanding American concerns and strategically promoting our own. What is needed is a mutually beneficial and pragmatic approach to engagement.

There is currently a climate bill pending approval in the US Senate. Canada has been anxiously waiting to see what the final legislation will look like, since the American approach to climate change will greatly affect how we move forward with our own. However, the possibility of this bill passing in the shadow of an election is uncertain, and with each day that passes without clear direction, this uncertainty drives up the costs for American and Canadian businesses alike.

While we can make progress in some areas that are less sensitive to international pressures, unilateral action by either Canada or the US on issues like carbon pricing could lead to significant competitive issues for our companies. That is why Canadians need to be ever mindful of developments in the US, particularly where there could be economic implications for Canadian industry.

At the same time as we cooperate on environment policy, we also need to think about the future of the North American energy supply. I believe that energy security and environmental policy are among the most critical policy dimensions facing our countries.

Energy Security

According to the International Energy Agency, global consumption of energy will increase by 45% over the next twenty years or so. As consumption continues to increase and supply lines increasingly extend into dangerous parts of the world, energy security will become an increasing concern for the international community and America in particular. Energy security is literally a matter of national security.

And, with our rich supply of a wide variety of energy sources, Canada is the key to US energy security.

As consumers insist on greater energy efficiency and concerns grow about climate change and other environmental impacts like the Gulf disaster, the energy sector will have to meet the highest-possible environmental standards. We will need to make massive new investments to develop innovative green technologies. Without this sort of commitment North America risks losing out to competitors like China that are not only investing heavily in their energy sector, but also have an abundance of low-cost labour.

Canadians should be particularly concerned. Since 1980, Canada's production of energy has almost doubled so that today, the Canadian energy sector accounts for \$70 billion worth of our GDP. We are the largest producer of uranium for fuel, the third largest producer of natural gas and hydro electricity, the seventh largest producer of crude oil and nuclear energy, and the eighth largest producer of petroleum products. We are the largest single supplier of energy to the US and the single largest consumer of American energy exports.

Many US investors have substantial stakes in Canadian energy production. As in so many other areas, Canada and the US share a common interest.

As a major energy supplier, Canada needs to be seen as a source of responsible, secure and reliable energy. We'll have to be forthright both about the challenges in 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. And Canada's contribution to North American energy security is more than just oil. We are a vibrant and secure source of hydro electricity, uranium fuel and natural gas.

Finally, no discussion of energy security is complete without highlighting the need for investments into our shared energy infrastructure. We cannot afford another Northeast Blackout, which means we must co-operate in updating and expanding our energy system. Currently, both Canada and the US rely on a 20th century electricity grid. The demands of the 21st century will quickly outpace

the capacity of the current system. A modern electricity grid will need to be able to handle today's demand and adapt to meet tomorrow's needs. The development of smart grid technology, better management of the grid and the digitization of the distribution system are all ways to make energy delivery more reliable and secure.

Conclusion:

The effort to transform our partnership into a North American powerhouse cannot be confined to government. Neither Canada nor the US can afford to allow ourselves to simply drift in the currents of change that are sweeping the global economy. Nor can our citizens wait for our governments to take the decisions about our shared future for them. The business community, the academic sector and individuals in both countries must decide where we want to go, and map out the route for our elected officials to get us there.

A stronger North American partnership is inevitable. It will come either by default, as the forces of technology, commerce and common security bind our countries more closely together, or by design, if politicians, with leadership from the business community,

among others, create a compelling vision of a true North American community.

Our geography, our history and our values all demonstrate that what we share in common is greater by far than the issues that sometimes come between us. We share a house that is built on solid foundations. If we tend it with care and renovate it when necessary, it will continue to give us shelter and comfort for many generations yet to come.