

**North American Futures: Challenges of the 21st
Century
DRAFT Discussion Paper**

SUMMARY: Canada is unique among major industrialized countries in that it has only one neighbour. We always feel that Americans need to know more about us, without acknowledging that we don't know as much about them as we think we do. From Confederation on, Canadians have always been anxious to keep Uncle Sam at arm's length. Since 9/11, Uncle Sam has been more than happy to agree, creating a "real border." Now, we want back into Uncle Sam's embrace – or at least into his pockets, so that we can share in his industry and investment. Protecting our gains will require a smart approach to integration, including a complementary approach on immigration and refugee policy; harmonization of standards and regulations; and a robust security arrangement that includes law enforcement, intelligence sharing and adding maritime and land forces to our continental air defence arrangement. We can make progress if we keep in mind the following lessons:

1. Be Bold – Americans' respond to 'big ideas' not 'small ball'
2. Tone matters, especially at the top. Work relationships at every level – governments, business, labour, knowledge networks and civil society.
3. Stay focused and set visible milestones; public pressure is a mighty incentive for bureaucrats and politicians. Experiment regionally, recognizing that one size does not fit all.
4. We have a global network – use it and leverage our relationship as 'interpreter' and 'helpful fixer' vis a vis America and the rest of the world

5. And remember, for Canadian interests in the US it is a permanent campaign requiring a thousand points of contact.

The American Situation

1. What we Know

- Debt, the highest unemployment in a generation, two wars to wage, a polarized electorate that has little faith in its institutions, a Republican opposition that smells blood going into the midterm elections this fall that has many in his own Democratic party petrified, means that President Obama is going to be fully preoccupied with his domestic situation and the burdens of primacy.

- Security trumps. Recognize that there is no going back; 9-11 has changed America in the same fashion as Pearl Harbor.

- DHS is gearing up for an immigration reform process in 2010. It was tried under the previous administration, and it is very challenging. The entire terms of the debate will shift the attention, and all the bandwidth of DHS and Congress to the southern border. So the timing of this initiative, providing some focus on broad principles to guide progress on the northern border could be very helpful – Bringing focus on common goals.

2. What we Don't Know

- A faltering US economy has significantly negative implications for Canada. If history is any indication,

protectionism is the ugly stepchild of recession and job losses.

- Declinism is fashionable BUT the US has remarkable resiliency as long as its doors remain open and maintains its ability to absorb different races, religions and cultures, an increasingly critical factor in maintaining global preeminence. America has been about compulsive creation. It's a nation driven by the New—new ideas, new cities, new companies, technologies, art forms, production, management, distribution, design, Hollywood, Tin Pan Alley, Silicon Valley.

I How the Relationship can be Managed for the Future

- The Big Idea is taking the relationship to the next level. We've reaped the harvest of the FTA and NAFTA. We to create the conditions so that people and good pass back and forth with fluidity. It means a shared commitment to

- o Security based on a perimeter around North America.

- o Mutually-sustained economic prosperity based on improved competitiveness building on the already deeply embedded supply chain dynamics.

- It will require us to:

- o Make our case to the Administration, to Congress and at the state and local level. A continuous campaign with a thousand points of contact at every level of power in the U.S.

- o Recognizing the American burden of primacy, we have to bring to the table the intelligence and insights that our global network of missions and natural pluralism at home can give to us.

o It will require imagination and innovation. Most importantly, it will require active, inspired leadership from the prime minister and premiers.

1. National Level

- Tone at the top is critical. PM must constantly take the initiative with the President who bears the burden of primacy. Prime Minister Harper and President Obama have forged a good working relationship through a seemingly endless round of summitry. Engagement at the top is essential condition for progress. It is up to us to find the intersection our interests and those of Uncle Sam and to take the initiative. Be bold. Americans like big ideas.

- Institutions have worked well for us but they need to change with the times. There are some good ideas out there in Michael Kergin's CIC Report and Chris Sands' Brookings/Hudson Report. Specifically their call for a International Joint Commission on the Border.

- For Canada, getting the attention of the Administration is going to be even more difficult. We still possess the multi-lateralist instinct with a sensibility and sensitivity, reflective of our pluralism, that both serves our interests and gives us standing in Obama's Washington as his Administration actively re-engages with the world.

- We can be helpful as a 'fixer' if we choose to exercise our capacity. It means starting with the 'Big Picture' and bringing to bear the intelligence of our diplomatic network on the issues that count – Middle East, Iran, North Korea, China, Nuclear Proliferation, Climate Change – then moving to the 'small ball stuff'.

- As international architecture catches up with the reality

of globalization and an emerging multi-polarity we have an opportunity to play a constructive role in its design and operation. Copenhagen illustrated the need for a new approach to international fora. As hosts of the new G8/20 process we can develop the standard for well-run, results-oriented meetings.

2. Regional Level

- Value the relations between states and provinces and, in particular, the personal dynamics of the relationships between governors and premiers and legislators. They are the incubators of innovation on issues as diverse as border transit and climate change as has been demonstrated in the Western Climate Initiative, carbon sequestration and the development of the 'smart' driver's license'.

3. Business & Labor & Civil Society:

- Business has an important role. That we trade more with Home Depot than with France is a reminder that almost 40 per cent of our trade is intrafirm. In times of economic contraction and a 'thickening' border, these are vulnerable. Chambers of commerce and associations, the Business Roundtable and Canadian Council of Chief Executives play a constructive role. The Canadian American Business Council is particularly effective and we should encourage the creation of state counterparts like the Canada Arizona Business Council. We could also look to the European Trans-Atlantic Policy Network as an inspiration as a model that moves the agenda forward.

- A third of Canadian labour unions are affiliates of U.S.-based internationals, which gives us a natural entrée into

this key element of the Democratic coalition. It is a card Mr. Doer (a former labour organizer) will need to play in what will be his abiding preoccupation: battling protectionism, be it dressed as "Buy America," national security, environmentalism or health and safety.

II Managing the Relationship

1. Security:

- There remains a nagging concern that Canada is the broken back door to America. You will have read about the briefing President Obama received after he won the election and the warning that a group of Somali Muslims were plotting to bomb the inauguration. This chilling scenario proved illusory but it left an impact.
- Like it or not, we have to genuflect to security at every opportunity –as the PM did when Obama visited last February and as Canadian officials do at every opportunity.
- We have developed true 'interoperability' in the defense of the continent – why can't we apply these lessons learned to forming a better approach to perimeter security? The military works together very well without sacrificing any of our 'sovereignty'.
- We see this as an integrated whole – not just security vs border facilitation or economy. It is an ecosystem that needs to be recognized and developed. Security is woven into the fabric of the border communities, and if you try to simply dictate it from above, you may in fact diminish security.
- Point to the IBET, IMET, etc. and say that we need

more security cooperation from the bottom up – continue in new areas to enhance security cooperation, as well as border facilitation – absolutely vital for economic recovery. Build on the work of CBP and CBSA Port Directors to convene local officials and interested parties to develop Port-Specific Smart Border Agenda Committees

- Real security cooperation can occur driven by regionally based collaboration. What we are seeing today as a result of the preparation leading up to the Olympics, and the commitment of both BC and Washington state, and PNWER is a new kind of security cooperation that we have not seen before. And this will continue after the games.

- Don't tell the border folks how to do their job, but instead define what outcome we want, and let a process determine the correct solution as we did with Smart Drivers' License

- By paying attention to the corridors and gateways, is the way we build security and economic integration. Real security does not happen without a bottom up approach that builds partnerships with all stakeholders. We can call attention to all the work that actually has been done in preparing for the Olympics, as a mechanism that builds security, and can also make the border work better.

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To achieve these objectives will require greater attention to America's abiding concern with security. Towards that end we need to do the following:

- Expanded law enforcement;
- More intelligence sharing;
- Harmonized approach to visas – we've moved in this direction but there are still a dozen or so countries for which we don't require visas that the US does. While the

imposition of visas on Romania and importantly Mexico may have aggravated travel, it has given the Americans comfort that we are starting to get security. Their concern are those that use Canada as entrée to the U.S.

- Creating a perimeter around North America that begins with Canada and the US and will allow docking for Mexico when ready.

We've already started.

- Even prior to 9-11 we had immigration officers working with airlines to ensure anyone getting on a plane for Canada had a legitimate passport and visa. Post 9-11 the Americans are also doing the same.
- We've expanded the approach from people to goods so that we have US officials in Halifax, Montreal and Vancouver and Canadians in NYC, Los Angeles and Boston. We've also got inspectors in Rotterdam, Hong Kong and Singapore.
- Any container offloaded in a Canadian port onto Canadian rail destined for the US (mostly Chicago) is now Vacised – a higher degree of security than the 3% that are inspected at American ports.

Military cooperation is essential.

- We get points in the Pentagon for Afghanistan and our work in the Gulf containing Al-Qaeda and now the Somali pirates but America still looks at defence expenditures as a litmus test of commitment to bilateral and collective security.
- Paul Cellucci spent much of his ambassadorship encouraging Canada to develop a lift capacity. We've now got it in the C-17s that recently transported troops and

emergency relief to Haiti.

- We need to continue to keep our men and kit ready for various contingencies – counter-insurgency work as in Afghanistan, disaster relief as in Haiti, and protecting the homeland be it special events like the Olympics or the G8/20 or securing sovereignty in our North and especially the Northern Passage.
- This means keeping pace with the technological advances and ensuring that our troops have the planes and ships and LAVs to do the job.

2. Economic

- Efficiency and Security are not contradictions.
- Use the right language. Trade and investment no longer reflects the realities of deep integration. We need to change the vocabulary, especially when we are talking with Americans. Use terms like 'Canada-US value chains' or 'joint Canada-US production'. NAFTA is a dirty word south of the border and thanks to a steady drumbeat from the AFL-CIO, Lou Dobbs and the others, it immediately raises subliminal and negative feelings around illegals, aliens and the export of American jobs.
- Harmonize our standards as they relate to health and safety. On both sides of the border there is a mythical perception that their standards are inferior to our own.
- Its time to take a blow torch to the minutiae of small differences. Each year the federal and provincial governments add another 4500 new or amended regulations (Fraser Institute). For example, and despite the high degree of integration in car manufacturing, Canada and the US have yet to agree on occupant protection, electronic stability

control, driver distraction and bumper and emission standards. The food industry is also rife with incompatible grading, inspection and packaging standards that thwart trade and raise prices. Sometimes this is intentional – as with COOL in the US and regulations in Canada covering cheese-flavoured popcorn that are designed to protect domestic milk producers.

- We need to move towards a system of mutual recognition as the default for product, services and labour standard with exemptions in only those instances where there is a legitimate policy objective – bilingualism is a good example.
- The Conference Board reckons that 40% of bilateral trade is intra-firm ie involving different parts and services from the same company. During the 90s two-way trade grew at an annual compound rate of 9% but since 9-11 there has been a scaling back in supply chain dynamics that has only been exacerbated by the recent financial crisis and goes beyond the appreciation of the Canadian dollar.
- Much of what needs to be done can be done unilaterally and with domestic effect. This includes:
 - o Mutual recognition of labour credentials and qualifications by Canadian provinces. This has already begun in the west with TILMA and between Ontario and Quebec and Quebec and France and at the last Council of the Federation meeting, all provinces agreed to move in this direction. This is a sea change in approach and offers real hope for positive results – essentially two decades after negotiating free trade with the US we are finally achieving free trade between the provinces.
 - o Continued harmonization of provincial and federal sales tax – we are nearly there with the decisions by BC and Ontario to join Quebec and the Atlantic provinces.

- o Create a single national securities regulator. I realize this is controversial in Quebec but it sets the path for mutual recognition of financial regulations with the US and other countries.
- o Accelerate efforts to establish pan-Canadian standards and process moving in tandem and to reinforce similar efforts at the bilateral level.
- o Lift country rules of origin, unilaterally or if this is too much to swallow go for a common external tariff schedule that would effectively achieve the same ends. Focus on barriers to imports used in production – it is reckoned that for a third of our manufactured exports components originated in Canada account for less than half of the final product.
- o Act on the advice of the Competition Policy Review Panel aimed at reducing barriers to foreign direct investment in Canada. It worked in the 80s and it will work to our advantage again.
- o Introduce explicit policies that encourage the economic value of outward investment. This is what builds brand name companies like RIM and NOKIA.

3. Energy & The Environment

- Environment and Clean Energy Initiatives are more effective if developed jointly between the US and Canada. Energy security and independence is important to North America, and infrastructure capacity and the free flow of energy supplies between the US and Canada is vital to our security and economic future and should be encouraged. In addition, both the US and Canada must work together to develop CO2 reduction strategies.

- To repeat the recommendation in *From Correct to Inspired: A Blueprint for Canada-US Engagement*:
- Greater US energy security cannot happen without Canada. On no two files is there greater need and scope for constructive collaboration. To start, the two federal governments need to craft a joint approach to carbon control in place of proliferating local and regional plans. Next, they should recognize that oil and gas will be part of the energy equation for years to come, and that sensible management of their exploitation and distribution is critical to both energy security and environmental sustainability. Third, support for new technologies needs to be pursued prudently and realistically. Finally, Canadians should accept that the energy cards they hold are not a weapon to use against the United States but an incentive to work together and find common solutions. They are key to mutual solutions – just as the FTA led to success on acid rain.

4. The Americas:

- We are a nation of the Americas and, post-Afghanistan, put Mexico alongside Haiti at the top of our priority list. Haiti is a long-term project in reconstruction.
- In the Mexican case, the short-term priority is continuing to lend security advice and assistance in the existential war with the drug cartels. We do this not only because it is the right thing to do but because if the situation in Mexico goes badly, the United States will face an unprecedented refugee problem on its southern border that will inevitably have implications for our own border. Robert Pastor has come up with an innovative plan for a North American Development Bank, inspired in part by the

experience of the Marshall Plan. It deserves our attention and support.

Conclusions

1. For America, we are not a problem requiring attention. Yet for Canada, our interests with the U.S. are vast, deep and growing daily. We have to get this relationship right and it is incumbent on us to take the initiative. The responsibilities of global primacy and an increasing preoccupation with domestic concerns means that Canada must be even more creative in making its case in Washington and in harnessing the strengths of the different levels of government. We will have to make our own breaks.

2. We can't take our well-being in the North American space for granted. Continued incrementalism means eventual decline. 'Smart, bold partnerships' on energy, the environment, labor mobility, regulatory standards and perimeter management will advance Canadian interests. As Chicago planner Daniel Burnham's famously stated "Make no little plans. They have no magic to stir men's blood."

3. Security is the abiding American preoccupation. We must be their 'safest' and 'most reliable' partner – progress on all other files begins with security. The U.S. needs a high level of confidence that we 'watching their back' and to be consistently reminded that we are a reliable partner in collective security (eg. Afghanistan).

4. We need to cultivate a thousand points of contact – the Administration, Congress, the states and cities, and the relationships between business and labour. We should have a presence in every American state using our network of star-spangled Canadians working in the local chambers of Commerce and reporting through our hub of existing consulates and our Embassy in Washington.

5. The key element in what I call the hidden wiring of connections at the state and province level is the relationship between premiers and governors. Premiers and governors are consistently ahead of the curve in their appreciation of the Canada-U.S. relationship. Last month premiers met governors at the winter meeting of the NGA and began to constructively discuss how to, for example, implement the reciprocity agreement on government procurement. Launching annual meetings between the National Governors' Association and Council of the Federation would temper protectionist instincts by underlining the 'best customer' relationships between states and provinces.

More can be done at the state-province level. They are the incubators for change. Look at the smart drivers' license – the brainchild of Premier Campbell and Washington Governor Gregoire to deal with the border traffic around the Olympics. They designed the new license to meet security requirements and then, working through Congress and the Administration, persuaded Homeland Security to adopt it as an alternative for land travel at the border.

6. Canadian resources are central to American energy security. Withholding them is a hollow threat and would only threaten our own unity. But efforts to discount 'dirty oil' should be fiercely resisted as protectionism wrapped in 'green'. Achieving an early, joint approach to carbon management will give us the initiative on the road to Copenhagen. Hydro electricity is an important Canadian card. It's clean, it's there and it's what the smart grid needs. There is a particular opportunity and contribution to nuclear non-proliferation if Canada were to assume stewardship of uranium from 'cradle to grave'. Commence planning to build a pipeline from the oil sands to the West Coast to diversify and open markets with Asia. Water will emerge as the most important resource issue in the 21st century. It offers both an opportunity for business development, especially in clean water technology and sustainability, and a challenge for policy management.

7. Governments must resist the temptation to over-regulate. Business and Labour need to recognize that the changed situation requires them to improve their own game and step up for the common good. Political leadership must be vigilant to the bureaucratic instinct to control and over-regulate. Risk management coupled with good intelligence is the better way to ensure the beneficial flow of people and trade. Canadian universities and think tanks need to develop 'knowledge centres' around critical aspects of the U.S. and develop closer relationships in the U.S. And make maximum use of 'star-spangled Canadians' to connect2Canada.

8. Our successful and continuing historical experiment with pluralism gives us a remarkable asset and a position of responsibility to make a better world. We can be bridge between nations and a linch-pin across oceans. The diversity of our population and especially the networks that we gain through immigration gives us 'standing' and an ability to 'Think Big' on the major developments of our time, like the rise of China and India and climate change. We need to further develop our relationships, especially with China and India, and take full advantage of the migration that is giving us membership and presence in the Greater Chinese and Indian diasporas. These are both ends in themselves but also a means to influence with the United States.

9. Like it or not, we live in a world where change take place quickly, unpredictably and in a sequence of rapid disruptive events that obliges agility and resiliency. Our global diplomatic service give us a different 'perspective,' especially on places like Cuba and the quiet work we are doing in development through, for example, training judges and police in the rule of law and the importance of governance. Our relationship with the United States gives us a unique influence as interpreter of America to the world and to America on the world. Played effectively, our global relationships have immense value both in themselves and in reinforcing our sense of who we are and what we represent as a nation.

10. Success demands bold leadership and vision from the prime minister, the premiers, business and labour. Inscribed into the paneling of the old cabinet rooms on Parliament Hill is the biblical verse: 'Where there is no vision, the people perish'. This point needs to be underlined. As Tom Fingar, then chair of the National Intelligence Council, writes in the introduction to *Global Trends 2025: A Transformed World*,: "leadership matters, no trends are immutable...timely and well-informed intervention can decrease the likelihood and severity of negative developments and increase the likelihood of positive ones."

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