

University of Calgary Institute for United States Policy Research
School of Policy Studies

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**The Next U.S. Administration: Policy Directions & Implications
for Canada-U.S. Relations**

March 6-7, 2009

Session III – Trade and Economic Policy
1:45 p.m. – 3:45 p.m.

PRESENTERS

Gary Hufbauer and Dr. Claire Brunel, Peterson Institute for International Economics,
Washington

Greg Anderson, Political Science, University of Alberta

COMMENTATORS

Bill Dymond, Centre for Trade Policy and Law, Carleton University
William Kerr, University of Saskatchewan

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Session III- Summary

The arrival of a new American administration creates the possibility of new dialogue between Canada and the United States. Given these possibilities, discussion in the “Trade and Economic Policy Trends” session focused on two broad themes: first, what are the pressing bilateral issues facing Canada and the United States? Second, how should policy issues concerning Canada and the United States be addressed?

The first theme was the focus of the presentation by Gary Hufbauer and Claire Brunel. In their paper, “U.S.-Canada Trade Issues Facing the Obama Administration,” Hufbauer and Brunel identify seven priority areas of focus for any new conversations regarding bilateral trade. These include contemporary challenges, such as climate change, energy security, food safety, security taxes and drug wars, as well as enduring matters, such as softwood lumber and fisheries disputes. The authors underscore the importance of these issues for trade and bilateral relations and highlight the benefits of coordination and cooperation in each area.

As Hufbauer and Brunel point out, both Canada and the United States have been poor performers in drafting progressive policy regarding climate change. However, the topic has garnered significant political attention and progress is starting to be made in both countries. Despite this, most activity dealing with climate change has been unilateral; Canada and the United States have been taking their own approaches in dealing with the problem. This unilateral focus has the potential to curtail trade, as border adjustments could increase costs in order to maintain differing standards on either side of the border. Cooperation on environmental policy should minimize these effects, benefiting both countries.

Bilateral cooperation on the issue of energy security would also benefit both countries. The energy sectors in Canada and the United States are interdependent, with substantial cross-border flows in petroleum, natural gas, and electricity. However, there are two important issues that must be addressed to improve energy security. First, given the current reserves, further development of oil and gas is needed. Second, there has been insufficient investment in energy infrastructure. Hufbauer and Brunel suggest that these issues are best addressed cooperatively as collaborative development of the energy sector can strengthen energy security in North America. The authors also indicate the need for removing regulatory barriers so that alternative energy sources can make a major contribution.

Hufbauer and Brunel also pointed out that the harmonization of North American food safety standards would be beneficial to trade. Companies that sell to both the Canadian and American markets incur high costs to comply with national standards that differ in small ways. The cost of dealing with multiple regulatory systems lowers productive investment and reduces the incentive to innovate. Hence, regulatory harmonization would have large payoffs. Previous attempts at harmonization have been hindered by politics and the bureaucracy, yet, given the possible gains, reopening this dialogue would be worthwhile.

Softwood lumber and fisheries have been sources of dispute between Canada and the United States since the early 1980s. These disputes have been characterized by antagonism between the two countries, with both petitioning international bodies over the harvesting practices of the other party. Some consensus was reached on the softwood lumber debate with the signing of the *Softwood Lumber Agreement* in 2006. Conflict

remains, as the United States has questioned Canadian adherence to the agreement through bilateral consultation and international arbitration. There is also the possibility that both sides could renege on the agreement. Hufbauer and Brunel advise that the two parties work within the realm of the agreement to prevent a trade war. Like lumber, fisheries have also been a highly contentious issue between Canada and the United States; environmental concerns have been used as de-facto trade barriers to protect domestic industry. However, such concerns are becoming more valid, and as such, there may be increased scope for cooperation on fishery issues both bilaterally and on the international stage.

Due to the strong demand for illicit drugs in the United States, and the difficulty in reducing this demand, the best means to slow the drug trade is decreasing its supply. The United States started using this approach in the late 1990s to lessen the flow of drugs from Columbia and more recently from Mexico. Hufbauer and Brunel indicate that this will likely lead the distribution networks to move through other neighboring states, such as countries in the Caribbean and Canada. Accordingly, Canada and the United States should work together to prevent the drug trade from escalating in Canada.

Another important bilateral issue for the United States and Canada is border policy. Increasing border security is hindering North American trade by hampering the flow of goods and people between Canada and the United States. There is little balance between trade and security; the operating maxim serves to ensure certainty instead of balancing risks and costs. Moreover, the security infrastructure is inadequate to deal with the volume of trade crossing the border. Together, the inadequacy of infrastructure and the failure to balance risk with costs has increased the cost of transport across the border,

a phenomenon known as border thickening. The flow of individuals across the border has also been hindered by new U.S. travel identification requirements; many citizens in the United States and Canada lack proper identification, making it impossible to move between countries. The flow of individuals across the border is also hampered because certain travel identification documents may not be recognized in both countries.

There has been limited cooperation between Canada and the United States on some measures to address these border delays. To reduce thickening, the two countries signed the *Container Security Initiative Partnership Agreement*, which facilitates the prescreening of imported goods, a measure designed to reduce costs. Similarly, initiatives such as SENTRI, NEXUS, and FAST, have been undertaken to address the issue of identification at the border. Further work is needed to streamline the recognition of credentials in both countries. Hufbauer and Brunel also advise that Canada and the United States invest in joint infrastructure to smooth the movement of merchandise, workers, and visitors across the border.

The issue of trade and security was expanded upon in the presentation by Greg Anderson, which assessed the approaches to addressing bilateral economic and trade issues. In his paper, “The Fragmentation and Integration of North American Governance: Border Security and Economic Policy for the Next Administration,” Anderson explores how the relationship between security and economics in America has altered the scope for joint policy making between Canada and the United States. He makes two claims about the manner in which policy can be conducted. First, the interrelation between economics and security has hindered the formation of any new governance initiatives. Second, in spite of the apparent obstacle formed by this relationship, it has created

opportunities for new forms of governance. He suggests that a regionalized approach to North American policy may be more successful than the current federal system.

North American leadership has been hindered by the lack of profile for common issues. The American agenda has been largely dominated by issues of security, thus except for serious bilateral conflicts and common problems, both Canada and Mexico have been largely ignored. This is a result of the manner in which security and economics have been addressed. Security agreements, such as the Security and Prosperity Partnership (SPP), have placed North American issues within the realm of each country's bureaucratic apparatus. This is especially problematic in the case of the United States, where the Department of Homeland Security has become the frontline agency for dealing with most Canadian and Mexican affairs. As Anderson indicates, this has depoliticized issues at the core of the North American agenda and made it difficult for Ottawa and Mexico City to garner attention from the White House.

Attitudes toward trade policy in the United States have also impeded progress on the North American agenda. Recent deteriorations in economic conditions have increased the talk of protectionist policy. Furthermore, the American House of Representatives let Presidential fast-track negotiating authority expire, changing the manner in which free-trade agreements are conducted. Anderson suggested that these developments signal a lack of enthusiasm by the United States for large scale North American trade initiatives.

Cooperative policy has also been hindered by a lack of leadership from Ottawa. Since the late 1990s, Canadian policy has largely been defensive with the Canadian government reacting to American trade legislation instead of working with the United States to reach joint agreements. Moreover, the Canadian government has failed to

effectively communicate its vision of North America. This is in stark contrast to the approach taken by the Mexican government, which has consistently articulated its place in North America. Canada must make its voice heard if bilateral initiatives are to continue.

The lack of progress on continental policy has led to some discussion of re-bilateralizing the North American agenda. This stems from the view that North America's north and south borders are quite different. Thus many issues could be dealt with more rapidly and comprehensively in a Canada-U.S. context. However, as Anderson indicates, this approach is difficult given current American attitudes. Both the NAFTA and the SPP have entrenched U.S. policymaking in a trilateral framework. In addition, political pressures in the United States make re-bilateralization nearly impossible. As a result of these pressures, the trilateral policy forum will continue.

The issue of labor mobility in North America is a significant barrier to trilateral policy agenda. This stems from the U.S. immigration debate on labor flows from Mexico to the United States. However, dealing with this issue may be a means to revitalize the North American agenda. The disparity in wealth between Mexico and the United States is a major source of immigration pressures. As a result, initiatives such as the North American Development Bank (NADBank) have been established to address this difference and to mitigate a major reason for labor mobility. However, the NADBank has been a joint venture between the United States and Mexico; Canada is not part of its governance structure and has not contributed to its funding. Given the importance of the immigration issue, Canada could begin advancing its North American agenda by contributing resources to aid in Mexico's development.

Another venue for revitalizing the North American agenda lies in the states and provinces. The North American agenda is full of pressing issues, ranging from topics such as security and economic policy to climate change and energy, but there is little political will at the federal level to deal with all of these issues in a single undertaking. An alternative approach to dealing with the North American agenda involves decentralizing the process and allowing sub-national governments to participate in regional policy making.

While this requires significant deference by national governments, it would engage local and regional stakeholders in the search for solutions to shared problems in security, the environment, development, and border facilitation. Moreover, it would foster competition between different jurisdictions to generate creative solutions that could be adapted elsewhere. This approach has already been undertaken to some extent, as evidenced by a number of regional groupings and organizations, but could be further expanded to find mutual solutions.

Both discussants expanded on the main themes addressed by the presenters. Bill Dymond reiterated that the new U.S. administration presents an opportunity for Canada and the United States to re-engage in dialogue on bilateral economic policy. However, he suggested that Canada needs to expand its traditional agenda from small issues and instead present bold ideas. Dymond identified four areas that require immediate attention: the environment and energy security, border issues, the integration of national regulatory regimes, and the enhancement of capacity for joint rule making.

He pointed out that indifference in Washington as well as the problems associated with trilateral policymaking, present obstacles for getting Canadian needs addressed. Therefore returning to a bilateral forum may advance Canadian issues faster.

William Kerr commented on key bilateral issues identified throughout the session and pointed out that there is limited scope for dialogue on many of these topics. This stems from the nature of many of these issues and preexisting agreements in many areas. He suggested that the differences in the Canadian and American economies may make it difficult for cooperation on climate change; Canada may be best served by following the United States' lead in this area. He also pointed out that the time needed for alternative forms of energy to become viable may make it difficult for a single administration to pursue successfully.

Kerr indicated that, given existing trade agreements, there is little room for dialogue on resource issues like softwood lumber or fisheries. Discussions on food safety face similar constraints; an agreement on food safety was reached with NAFTA, but the problem of policy sovereignty has made harmonization difficult. This will not change with the new administration. He also suggested that the problem of border thickening is overstated; it has not significantly affected trade flows. Moreover, he pointed out that policies that make cross-border trade and travel more cumbersome will persist until the war on terror is concluded.

Kerr proposed trade subsidies as an issue that should be addressed in any discussions, as subsidies are not covered by previous agreements and have the potential to influence trade considerably. He pointed out that the Obama administration will be

preoccupied by the economic crisis for the foreseeable future and this will limit the extent of any new discussion on bilateral or trilateral trade initiatives.