



# *BUILDING A SECURE AND COMPETITIVE NORTH AMERICA*

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*AN ADDRESS ON THE OCCASION OF THE  
16TH ANNUAL CONFERENCE, I.E. CANADA*

*BY  
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*MARKHAM, ONTARIO  
APRIL 23, 2007*



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Thank you for the opportunity to join you this morning and to talk about what is being done and what still needs to be done to build a North American economy that is more competitive within the global economy while also more secure against global threats.

My organization, the *Canadian Council of Chief Executives*, has like you been a strong supporter for decades of efforts to make the border between Canada and the United States less of a barrier to people and goods. We have supported freer trade and greater labour mobility because we know that efficient flows of goods and services between our two countries helps companies on both sides of the border compete more effectively around the world.

### ***POST-9/11 REALITIES***

The terrorist attacks of 9/11 ushered in a new era in North America, one in which the focus of public policy in the United States shifted toward security as its central priority. At the same time, decision-makers in both our countries recognized that physical security and economic security go hand in hand.



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In the short term, this led to the Smart Border accord and the many collaborative efforts that stemmed from this initiative – all aimed at increasing our mutual security while to the greatest extent possible speeding rather than slowing the legitimate flows of both people and goods across our shared border. The United States conducted a parallel exercise with Mexico, with similar goals but with priorities reflecting the different issues affecting traffic across the American southern border.

But as time passed, three realities began to hit home:

- One, the North American Free Trade Agreement, NAFTA, was providing less and less of a relative advantage to North American enterprises as tariffs and other barriers declined worldwide.
- Two, despite NAFTA's successes, the political environment was hostile to any revised or new comprehensive trade and investment treaty in all three countries, at least in the short to medium term.
- And three, it became clear that new economic powers, notably China and India, were beginning to transform patterns of trade and investment worldwide, posing a whole new challenge to the future of enterprises and communities across North America.



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### ***LAUNCH OF THE SPP***

The result, at the 2005 Summit of North American Leaders in Texas, was the *Security and Prosperity Partnership of North America*.

This agreement was both visionary and practical. Strategically, it recognized that the survival and growth of all three economies required much more intensive cooperation, across a wide range of issues, in order to ensure that companies could continue to invest and create more and better jobs in the face of this more intensive global competition.

But practically, it recognized that while there was no appetite for a new round of grand bargains, there was immense room for progress by doing a lot of little things better.

This conscious focus on issues that could be addressed through cooperation between government departments and agencies and the private sector, without the need for legislative changes in any of the three countries, is the hallmark of the SPP.



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Some critics of the SPP, in both Canada and the United States, like to portray this as deliberate conspiracy, some kind of grand bargain in disguise being hidden from the proper scrutiny by public and legislatures. But the fact is that there is precious little to hide – the underlying principle of the SPP is to encourage common sense to rule, to deal in practical ways with practical issues that can help the economies of all three countries work better.

Once Leaders had made their shared desire for progress clear, it wasn't hard to come up with a lot of ideas for moving forward. That first cut at shaping an SPP agenda ended up with some 300 different items. Many of those items represented pretty small steps that individually would not have much impact. But taken together, even 300 small steps add up to a pretty giant leap for North America.



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### ***CREATION OF THE NACC***

The downside of such a sprawling agenda is the difficulty of maintaining coherence and momentum. Hence, when the Leaders met in Cancun for the first anniversary of the SPP, they decided to ask for advice from the private sector.

A group of CEOs from each of the three countries was invited to take part in a roundtable discussion about what issues mattered most within the broad scope of the SPP. And this discussion led the Leaders to go one step further and institutionalize the idea of a vehicle to get ongoing advice from the private sector.

So was created the *North American Competitiveness Council*, a trilateral advisory body made up of business leaders from each of the three countries. Its structure is not strictly parallel.

In Canada, the Prime Minister personally appointed individual CEOs as members. Similarly, the Mexican section is made up of individual representatives.



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But in the United States, to avoid the entanglements with Congress that would flow from a government appointment process, the private sector organized its own participation, and did so on a corporate rather than individual basis.

A second decision about the structure of the NACC involved its administrative support. Instead of providing support through relevant government departments, Leaders decided that the NACC should function fully independently of governments and choose their own secretariats.

In Canada, we at the CCCE were chosen as the Canadian secretariat. The Mexican members chose the Instituto Mexicano para la Competitividad (IMCO) to support their work. And in the United States, members decided to split the work between two organizations, the United States Chamber of Commerce and the Council of the Americas.



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### ***NACC PROCESS***

The newly appointed NACC members wasted no time. After an initial meeting in June, each national section developed and shared its priority wish list. This led to a meeting in Washington, D.C., in August, at which members sorted through all the suggestions and narrowed the list to three strategic topics: border facilitation, regulatory cooperation and energy integration.

Each section then undertook to prepare an issues paper with recommendations on one of the three topics. The Canadians prepared the borders paper, the Americans took on regulation and the Mexicans tackled energy, a subject with unique complications on their front.

In developing the issues papers, the secretariats in each country consulted broadly across their respective business sectors.

In Canada, we naturally engaged our full membership directly, but we also consulted with a host of other business associations and think tanks.



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The process in the United States was even more elaborate, involving hundreds of individual companies and associations. Despite this extensive consultation, all three issues papers were completed and exchanged at the beginning of November.

This exchange of papers touched off a second round of consultations on the papers prepared by the other national sections. As these discussions on the details proceeded, the Canadian secretariat took on the task of consolidating the three papers into a first draft of the planned report to security and prosperity ministers.

This was completed by early December, when the co-chairs and secretariats met via conference call to iron out the concerns that emerged in the process of the consultations across the three countries and approved the format and structure of the consolidated draft. By mid-December a final draft had been completed and circulated to the full NACC membership for approval. And the last details were settled through another conference call in early January, enabling the report to move to translation and production.



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Before I talk about the specific recommendations, let me be clear about one point. Despite the paranoid accusations of the nationalist fringes – with Maude Barlow on the Canadian left and Lou Dobbs on the American right sounding oddly similar – the recommendations of the NACC do not suggest any measure that would threaten the sovereign power of any of the three countries. Its report simply highlights the huge potential for greater cooperation across a whole range of issues that affect the competitiveness of our economies and the quality of life of our citizens.

### ***STRUCTURE AND RECOMMENDATIONS OF NACC REPORT***

One result of the extensive consultation is that the report ended up with a large number of recommendations, more than 50 in all. While governments had initially indicated a desire for a fairly tight set of priorities, there was strong resistance to pruning the recommendations, especially from the American side. One of the key decisions in December therefore was to stick with a highly detailed report to ministers, while recognizing that the subsequent report to Leaders would be considerably more concise and strategic.



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To give ministers a sense of priorities within this long list of recommendations, the NACC report divides them into three time frames:

- actions that we believe can be completed before the end of this year;
- actions that we believe can be completed by the end of next year; and
- actions that may take until 2010 to wrap up.

We emphasized that these represent end dates, not start dates, and in many cases, work on the shorter-term recommendations was already underway. The result of this classification was a short list of 15 recommendations for completion in 2007.

While the report made recommendations across all three areas – borders, regulation and energy – almost half of the recommendations dealt with border facilitation. I will come back to them in more detail in a minute, since they are the ones most relevant to you, but first let me give you a flavour of the priorities identified in the other two areas.



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***Regulatory cooperation***, of course, covers a vast range of issues both within and between countries, and here the NACC had no choice but to be selective.

At the front end, the regulatory recommendations essentially endorsed current efforts to develop a new *North American Regulatory Cooperation Framework* and suggested that as soon as that framework is in place, governments should set up a *Regulatory Cooperation and Standards Committee* to drive progress. In other words, to enable the most rapid possible progress in reducing unnecessary differences in regulation across the board, the first priority is to establish an effective mechanism for addressing these issues.

The other over-arching recommendation in the regulatory section is that governments should require regulators to reference international technical standards wherever these exist. It then took three sectors as examples of what could be achieved quickly, making very specific recommendations in food and agriculture, financial services and transportation. And it wrapped up with some thoughts on how to improve cooperation in the treatment of intellectual property, which is a critical foundation of competitiveness in today's knowledge-based economy.



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The section on energy integration focused on trilateral actions that could be taken to enhance the security of energy supply through more effective cross-border distribution systems, development of human resources and development of clean energy technologies. The NACC also carefully explored the goal of helping Mexico to develop its energy resources, identifying some potential actions to bring more of this huge potential onstream while recognizing that Mexicans must decide for themselves how best to boost the competitiveness of their energy sector.

### ***BORDER FACILITATION PRIORITIES***

But as I mentioned earlier, close to half of the recommendations focused on making borders work better. Because production patterns within North America have become so closely integrated, any tightening of the borders adds to costs and undermines the cost advantages created by NAFTA. Goods brought into North America from overseas face customs inspection only once; goods produced within North America often must cross borders many times as value is added to raw materials that eventually become finished goods.



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Every measure that adds to the cost or time taken to cross borders within North America is in effect a tax on our own enterprises that benefits their offshore competitors. To the greatest extent possible, governments therefore must ensure that decisions about security and those involving economic policy are mutually reinforcing rather than conflicting.

The section on border crossing facilitation makes recommendations in four areas: emergency management and post-incident resumption of commerce; expansion and improvement of border infrastructure; the movement of goods; and the movement of people.

With respect to emergency management, the most urgent need is to speed up the development of national critical infrastructure protection strategies and then to enhance preparedness through simulations and other exercises.



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One of the most critical steps is to establish legal and regulatory protection for companies that share information about their vulnerabilities with governments. Without such protection, companies could be vulnerable to lawsuits from customers as well as leakage of confidential commercially sensitive information via access to information laws.

The goal of better planning, of course, is to ensure that as and when incidents happen that lead to border closures, cross-border commerce is able to resume as quickly and smoothly as possible. And to this end, it is essential that participants in low-risk programs such as C-TPAT, FAST and NEXUS actually get priority treatment under all security conditions.

Moving to border infrastructure, you are all aware of the costs created by congestion at major crossings even in the absence of security alerts. Governments at all levels are actively engaged in projects to expand border infrastructure, but these often involve multiple levels of government and that has persistently slowed progress.



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The NACC identified three priorities in this area. The first is to get land preclearance pilot projects underway without further delay. We all know that the best way to cut down congestion at the border is to move the customs processes away from the border crossings themselves.

This is an idea that has been on the books since the original Smart Border accord, but one issue or another has persistently blocked progress. A number of major issues, such as whether border agents can carry guns or not, have been resolved, and I believe that we are now frustratingly close to getting this off the ground on the Canada-U.S. border, with only one remaining obstacle to be cleared.

The other two infrastructure recommendations focused on particular geographic issues. On the Canada-U.S. border, the priority is to accelerate construction of new border-crossing capacity in the Detroit-Windsor area. On the Mexican side, the priority is to get major Mexican ports included within the U.S. Megaports Initiative.



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The report then makes a full dozen recommendations for improving the movement of goods into and within North America. Four of these are considered short term:

- First, governments need to improve the benefits that flow from voluntary participation in security programs.
- Second, keep the NAFTA process moving in terms of continuing progress to reduce the burden of the rules of origin requirements.
- Third, simplify the NAFTA certification process and requirements. Here, the NACC is talking about actions such as multiyear renewal for NAFTA certification, modifying the commercial invoice to include a field for NAFTA certification, and the acceptance of electronic transmission of NAFTA certificates and the recognition of electronic signatures.
- Finally, don't let border facilitation shift gears from forward into reverse. Here, the NACC takes aim specifically at the new Animal and Plant Health Inspection Service rule introduced last year, one that imposes a new level of inspection and a new set of fees, even on cross-border movements that have very little risk of containing plant pests or animal diseases.



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Recommendations over the medium to longer term include:

- elimination of duplicate screening,
- conversion from paper to electronic processing,
- coordinated regulatory requirements,
- higher thresholds for low-value courier shipments,
- a comprehensive North American customs clearance system,
- a common system for transmitting import and export information,
- research into “smart box” or “smart seal” technology, and
- simplified customs processes.

The final topic addressed under the border-crossing section addresses the movement of people. Here, the immediate concern is the implications of the Western Hemisphere Travel Initiative, which already is causing huge lineups at Canadian passport offices just because of its air travel requirement and which has the potential to cause chaos by 2009 when passports will be required for land crossings.



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The NACC report urges governments to take the time necessary to develop an effective, integrated and joint trusted traveler system.

In the meantime, there is a need to expand NEXUS to cover major land crossings as well as airports and seaports and to recognize NEXUS and FAST cards as satisfying the WHTI requirements.

Existing credential programs also should be integrated with the requirements of the US-VISIT program. And ultimately, the goal should be to develop a single interoperable credential that would be used for all programs that enable identified, low-risk people to cross the border with minimal or no interference.

### ***REPORT TO MINISTERS AND EARLY RESPONSE***

The final report was distributed to government officials by late January this year so that they could evaluate it and prepare the groundwork for the meeting of ministers in Ottawa on February 23.



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On the Canadian side, we took an additional step. Canadian members of the NACC see their role both as contributors to a trilateral consensus within the business community and as advisors to our own government in terms of Canada's priorities within this trilateral consensus.

In early February, therefore, Canadian Public Safety Minister Stockwell Day and Industry Minister Maxime Bernier invited the Canadian members to a working dinner in Ottawa. At that time, NACC members not only briefed the ministers on the report as a whole, but flagged those recommendations they saw as most important to Canada's interests.

All nine security and prosperity ministers took part in the meeting on February 23: Secretary of State Condoleezza Rice, Homeland Security Secretary Michael Chertoff and Commerce Secretary Carlos Guitierrez from the United States; Secretary of Foreign Affairs Patricia Espinosa, Secretary of the Interior Francisco Ramirez and Secretary of the Economy Eduardo Sojo from Mexico; and Foreign Affairs Minister Peter MacKay along with Ministers Day and Bernier from Canada.



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After introductory remarks by Canadian Co-Chair Linda Hasenfratz of Linamar and her American and Mexican counterparts, the meeting moved into a full hour of roundtable discussion. Ministers were clearly pleased with the quality of the advice they had received and supportive both of the overall direction of the report and its sense of urgency. Given the highly formal nature of the event, the dialogue itself was remarkably freewheeling and frank, and continued at individual tables over a casual lunch.

The Co-Chairs then wrapped up the NACC's participation with a brief news conference while ministers carried on with the remaining items on their agenda.

### ***NEXT STEPS FOR THE NACC***

Governments have moved quickly to respond the NACC's recommendations. In Canada, for instance, each of the recommendations is being assigned to a designated senior official who will be responsible for progress on that file.



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The Canadian government already has announced action on two specific recommendations. The 2007 federal budget announced the imminent signing of revisions to the Canada-United States tax treaty that will address the financial services recommendations calling for elimination of withholding tax on cross-border interest payments. It also committed new funding and federal action to accelerate the construction of new border capacity on the Detroit-Windsor crossing.

The NACC itself is now turning its attention to its next duty, the preparation of a report to Leaders at the next trilateral summit, scheduled for Ottawa in August.

While this is likely to include a brief report card on progress toward its recommendations to ministers, the intent at this point is to produce a much shorter and more strategic document, one that will offer broader and longer-term thoughts on the future of the SPP as a whole as well as on current and future priorities within the existing agenda. The intent at this point is to have a first draft done by the end of May, and to have a final document signed off by the end of June.



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That makes now a good time for you to be thinking about what else you would like to see private sector leaders raise with governments through the NACC process. And with that thought, let me stop talking and turn the floor over to you for your questions and suggestions.

Thank you.