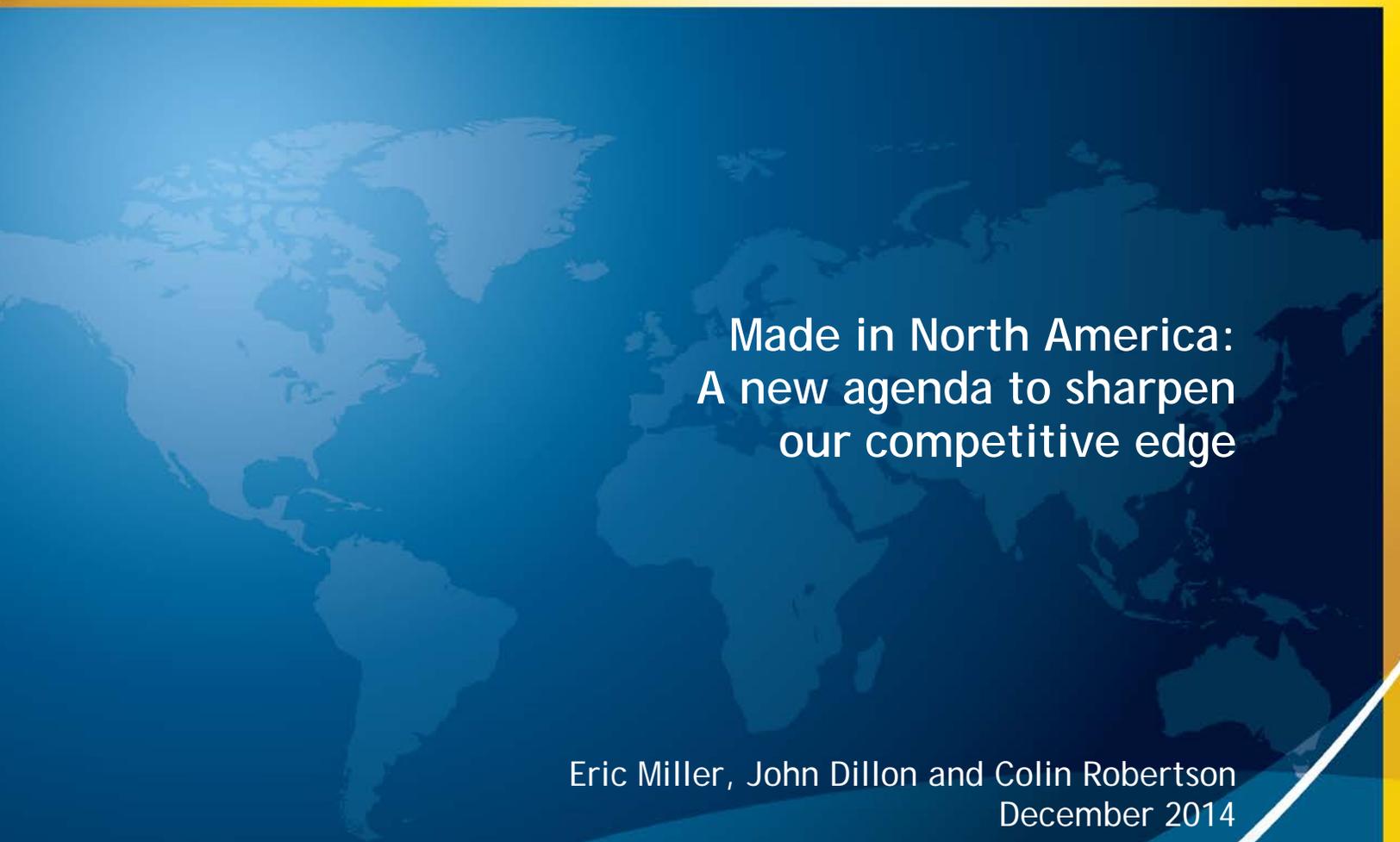




CANADIAN COUNCIL
of **CHIEF EXECUTIVES**

CONSEIL CANADIEN
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Made in North America:
A new agenda to sharpen
our competitive edge

Eric Miller, John Dillon and Colin Robertson
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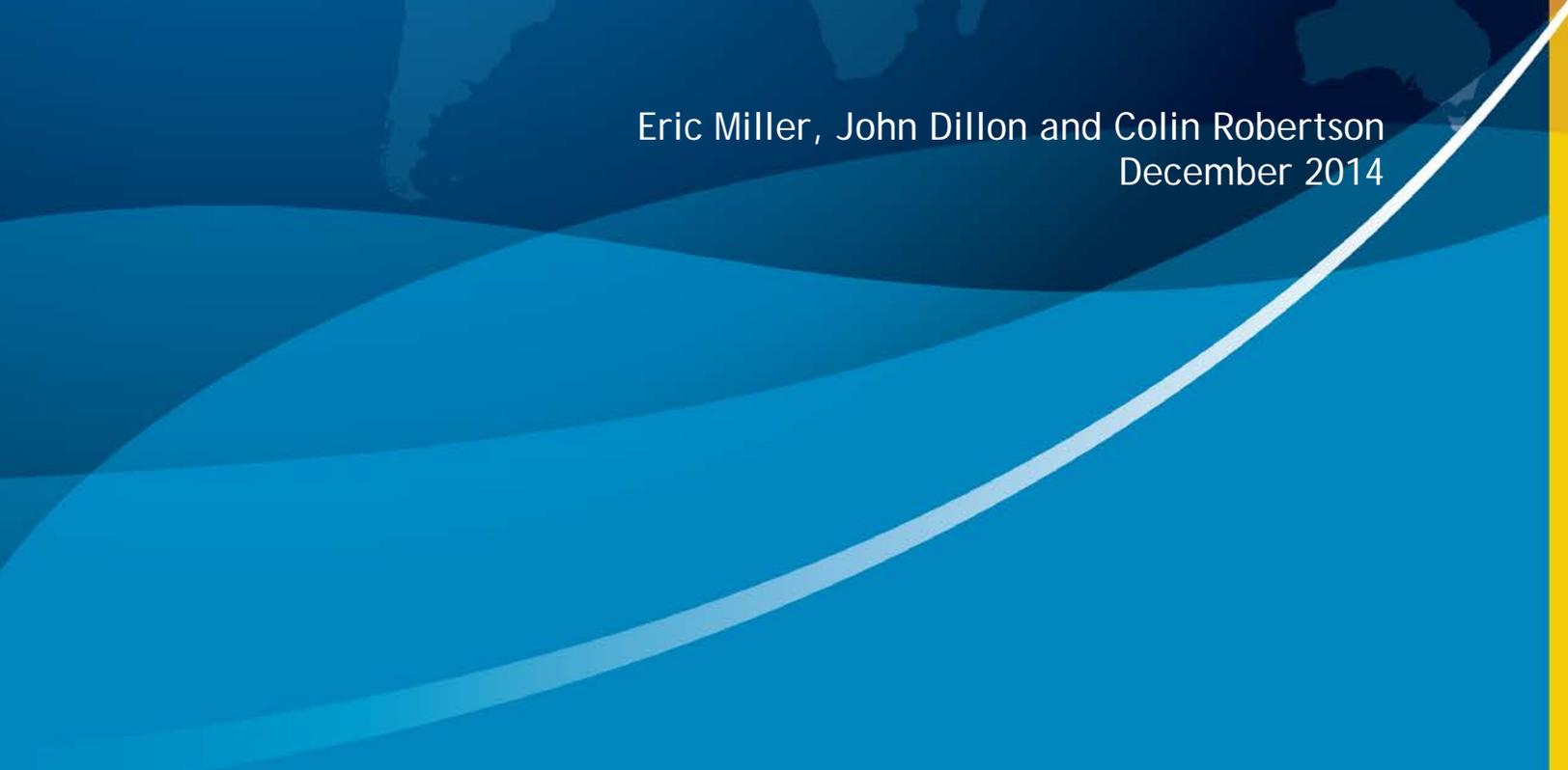


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Summary

A closer economic relationship among the three sovereign nations of North America – Canada, Mexico and the United States – is a powerful and compelling idea. The Canada-U.S. Free Trade Agreement and its successor, the North American Free Trade Agreement, laid the foundations of a continent-wide trade and investment zone.

These agreements have transformed North American commerce. Progress has been most evident in the growth of existing supply chains, the creation of many new ones, and expanded cross-border investment and infrastructure. The movement of goods, services and people between the U.S., Canada and Mexico has surged.

Even so, there remain many gaps in the mechanisms needed to create a vibrant and competitive cross-border community. The information technology revolution and corresponding shifts in economic activity have opened additional gaps in our pre-internet-era commercial framework. These shortcomings leave North America vulnerable to intensifying competition from the new powerhouses of Asia and the recovering European economies.

It is time for the three countries to come together in a fresh drive to sharpen North America's international competitiveness.

This paper sets out a 44-point agenda under eight main themes for consideration by the three governments. It is written in anticipation of the meeting of energy ministers in Washington in December 2014, and of the next North American Leaders' Summit in Canada in early 2015.

Recommendations in brief

Supply chain and border management

- Use “big data” to develop a partnership for secure and efficient supply chains.
- Complete the harmonization of trusted trader programs across North America.
- Apply the principle of “inspected once, accepted thrice” to inbound cargo.
- Create a single window for customs procedures in each country and apply it across North America.
- Agree on a common set of advance data required for cargo screening.
- Provide enhanced import and accounting benefits to the most trusted traders.
- Significantly expand customs pre-inspections for high volume shippers.
- Establish a trade facilitation advisory board.

Trade-related infrastructure

- Transform the North American Development Bank into a region-wide infrastructure bank.
- Use public-private partnerships to finance cross-border infrastructure.
- Convene a trilateral group of experts on financing cross-border infrastructure.
- Improve the physical layout and workflow at major border crossings.

Manufacturing

- Negotiate a North American automotive competitiveness agreement.
- Harmonize procedures, standards, and nomenclature in the meat sector.
- Develop and promote a Made in North America brand.

Energy and environment

- Compile a regular report on North America’s energy outlook.
- Develop a trilateral strategy to advance renewable and low-carbon energy technologies.
- Spur innovation in the energy sector through technology collaboration.
- Set up a technical body to work on cross-border elements of energy infrastructure.
- Streamline approval processes for cross-border energy infrastructure.
- Build stronger alliances among energy regulators.
- Develop a voluntary North American code of conduct for hydraulic fracturing (fracking).
- Convene a North American “vision group” on energy and the environment.
- Pursue a coherent response to climate change.

- Accelerate plans to protect the monarch butterfly.
- Coordinate action against invasive species.

Regulatory cooperation and alignment

- Experiment with trilateral regulatory cooperation.
- Devise an “align or explain” mechanism to encourage regulatory cooperation.

Trade rules and practices

- Exchange information on bilateral negotiations related to integrated industries.
- Ensure that North American content counts in meeting European origin rules.
- Pursue “cross-cumulation” arrangements with common free trade partners.
- Dismantle barriers to seamless transport networks.
- Issue regular reports on the North American transport outlook.

Skills and jobs

- Develop a process to standardize skills and training requirements across North America.
- Expedite cross-border movement of workers for training and skills development.
- Update NAFTA’s list of professionals eligible for temporary entry.
- Enhance the NEXUS and Sentri programs into platforms for facilitating advanced trusted traveller initiatives.
- Experiment with specific, needs-based matching of jobs and skills.
- Develop a skills enhancement strategy to address shortages in the energy field.

North America in the world

- Undertake regular North American trade and investment promotion initiatives.
- Work collaboratively to strengthen North America’s southern perimeter.
- Coordinate development strategies in the Caribbean.
- Strengthen North American cooperation on cyber-security.
- Devise a coordinated North American response to pandemics.

The North American opportunity

Blessed with vast natural resources, a deep culture of enterprise and a combined population of 500 million people, the three democracies of North America have the potential to help power the global economy for decades to come.

However, success is not guaranteed.

Canada, the United States and Mexico will need to sharpen their competitive edge if they are to keep pace with a rising Asia and a recovering Europe. Each country cannot do so alone. North America's supply chains, infrastructure and innovation systems are now closely intertwined. The region's future competitiveness therefore hinges on trilateral cooperation and stronger cross-border ties.

Although cross-border connections go back many decades, the concept of North America as a distinct economic unit only just celebrated its 20th anniversary. Canada and the United States negotiated a free trade agreement in 1987 that laid the foundations of a continental economic community. In the early 1990s, Mexico and the U.S. began separate free trade negotiations. Canada's decision to join those talks led to the North American Free Trade Agreement (NAFTA) in 1994.

NAFTA provided the conceptual and economic foundations for what we understand as North America. It integrated existing supply chains and created new ones across our shared geography. But NAFTA was designed as a business contract among the three countries with limited instruments for strengthening and extending its scope. Its architects deliberately avoided mechanisms that could be construed as advancing a European-style economic union. Sovereignty was so jealously preserved that Robert Pastor, a tireless advocate of North American economic integration, quipped that the message of the agreement's preamble was in essence: Together, we are in this alone.

In the two decades since NAFTA, the three nations have taken various steps – some bilateral, some trilateral – to enhance and improve the rules governing cross-border commerce. The Canada-U.S. Partnership initiative of President Bill Clinton and Prime Minister Jean Chrétien morphed into the Smart Border Accord negotiated by Canadian Foreign Affairs Minister John Manley and Homeland Security Advisor (and later Secretary) Tom Ridge under the direction of President George W. Bush and Prime Minister Chrétien. The most ambitious of these efforts was the Security and Prosperity Partnership, launched in 2005 by Presidents Bush and Vincente Fox and Prime Minister Paul Martin. It failed because the three governments tried to address too

many disparate issues, many of them neither strategically vetted nor well suited for trilateral resolution.

Trilateral action remains the preferred approach for strengthening the North American economy. A variety of issues are best addressed, either wholly or partially, by the three countries acting in concert, reflecting our integrated supply chains, shared geographic space, abundant energy reserves and regional economic synergies.

But a trilateral approach is not always practical. There is a strong rationale for bilateral action on many issues. The Canada-U.S. and Mexico-U.S. relationships are deep, complex and long-standing. Ties between Canada and Mexico have tightened over the past two decades, but still do not cover nearly as much ground.

While national governments and their leaders must be in the vanguard of building a more competitive North America, we see considerable scope for regional and sub-national collaboration involving premiers and governors, provinces and states, as well as municipalities in all three countries.

These sub-national relationships make up much of the hidden wiring that connects our 10 provinces, three territories, 81 states and two federal districts. On issues such as automotive emission standards and the introduction of “smart” drivers’ licenses, sub-national jurisdictions are often incubators and test-beds for innovations that are eventually applied nationally and across borders.

The principle of subsidiarity appears to offer the best path towards a competitive future and a functional North American architecture. In other words, the three countries should address issues in the manner and at the level – whether trilateral, bilateral, or regional – that makes most sense.

Prime Minister Stephen Harper and Presidents Enrique Peña Nieto and Barack Obama committed their governments to a roadmap for improving North American competitiveness at a summit in Toluca, Mexico, in February 2014. The 44 recommendations outlined in this paper seek to support that initiative.

Our recommendations are based on discussions held between March and October 2014 with leading experts in the three countries, including meetings with senior government officials in Washington and Mexico City. This paper also draws on a series of studies by the Canadian Council of Chief Executives and insights from its members, including work done when the council acted as the Canadian secretariat to the North American Competitiveness Council.

Our paper is intended to complement the recent Council on Foreign Relations (CFR) report titled *North America: Time for a New Focus*. Directed by General David Petraeus

and Robert Zoellick, the CFR study explains the “why” of North American integration based on a wide range of economic, trade, security and immigration issues. Our paper is intended to lay out the “how” of integration, in the form of practical proposals seen from a business perspective.

We recognize that sharpening North America’s competitive edge requires a complex and multi-layered set of actions, some of them politically challenging. The measures set out in this paper are not intended to cover every dimension of that challenge. Among the long-standing issues that we have not examined is a common external tariff. Whatever its advantages, we recognize that such a proposal would be controversial and laborious to implement. It would also deliver relatively modest benefits, given already low tariff levels.

Our recommendations are intended to make a tangible contribution toward ensuring that North America lives up to the goal articulated by our three countries’ leaders: that of being “the most competitive and dynamic region in the world”.

The proposals cover eight broad themes:

- Supply chain and border management
- Trade-related infrastructure
- Manufacturing
- Energy and environment.
- Regulatory cooperation and alignment
- Trade rules and practices
- Skills and jobs
- North America in the world

We are confident that, by harnessing the power of technology and “big data”, the three countries can improve supply-chain efficiencies while assuaging security concerns. We see much merit in public-private partnerships for infrastructure development but recognize that, in an age of fiscal restraint, we need to prioritize needs based on usage and current conditions. We see merit in experimenting with new models of cooperation, especially between states and provinces and through regional associations such as the Pacific Northwest Economic Region.

The concept of an integrated North American economic unit makes good sense. But moving that agenda forward requires constant effort on the part of governments, business, and the research community. Above all, it requires political leadership at all levels – mayors, governors and premiers, legislators, prime ministers and presidents.

Heads of government and ministers in key portfolios such as energy, transportation, and public safety/homeland security should meet at least annually. Moreover, the three governments should empower their central agencies to oversee trilateral and bilateral initiatives and push departments to deliver on the commitments of leaders.

We hope that these proposals will spark lively discussion and help catalyze action, beginning with the December 2014 energy ministers' meeting and the 2015 North American Leaders' Summit.

Towards a more competitive North America

Supply chain and border management

North America needs to be smarter about how it manages its borders. We recognize that the world is a dangerous place. Citizens and business leaders look to their governments to address these challenges. But security requirements often impose unnecessary costs on manufacturers, carriers, importers, retailers and, ultimately, consumers. Current policies and practices tend to treat the border as the place where security begins and ends. Border procedures demand massive amounts of redundant paperwork which can end up hindering rather than helping border security.

A key focus of a new North American competitiveness agenda should be to reduce transaction costs at the border and within supply chains. With more than 40% of global trade now occurring within individual firms or trusted supply chains, improvements on this front will yield tangible dividends.

Many businesses complain that the trusted trader programs now in place demand significant investments but yield minimal benefit in the form of faster and smoother border processes. The recommendations below are based on the notion that the most trusted traders – those that have invested in systems and processes to comply with customs rules and supply-chain security – should be rewarded for their efforts. Neither the continent's economy nor its security benefits if governments mete out the same treatment to supposedly trusted partners as to those who have yet to earn that trust.

Trade facilitation and security need not be at odds. By leveraging the power of big data and smart technology, companies can make supply chains transparent. Sharing information with government builds trust. Coupling this enhanced relationship with the operational improvements set forth below would enable a true 21st century trade and security partnership between the public and private sectors.

Goals:

- Cut red tape and duplication.
- Embrace technology.
- Organize traffic streaming by the degree to which it is known and trusted.
- Make operational decisions based on a robust assessment of risk.
- Embrace a true partnership with the private sector.

Proposed actions:

1. Use big data to develop a partnership for secure and efficient supply chains.

International trade today is conducted through supply chains, often with many levels of intermediate inputs. Policymakers have shown growing interest in tracing the history of traded products, whether to verify their origin or compliance with an array of policy measures, such as prohibitions on child labour, conflict minerals and wood from endangered tropical forests. There are significant opportunities to leverage advanced analytical tools, known as big data, to improve supply-chain security and efficiency.

A 2013 survey of 400 executives by The Economist found that 51% believed predictive analytics would deliver a more precise risk assessment of suppliers. Yet only 31% used predictive analytics in this manner. Despite recognizing the benefits of greater supply-chain visibility and predictability, nearly 60% of respondents said that the costs of applying predictive analytics to their supply chains outweighed the benefits.

Both the public and private sectors stand to benefit from greater transparency and predictability within supply chains. But the cost-benefit equation needs to shift if companies are to make more use of smart sensors (such as radio-frequency identification, or RFID, tags) to apply advanced analytics to their supply chains. Productivity gains alone have so far not been enough to trigger a big data revolution.

One of the most effective ways to encourage use of these advanced technologies would be to improve the incentives for customs compliance. The U.S. Customs Modernization Act of 1993, which became law through the same legislative vehicle as NAFTA, introduced the concept that governments and the private sector each have a role in securing the supply chain and ensuring compliance with customs rules. Embedded in the law is the principle of “informed compliance”; in other words, importers must be familiar with the customs rules applicable to their products, and must make a statutory declaration at the time of entry covering the products’ classification, origin, and the like. Canada and Mexico use basically the same importer self-certification model.

As supply chains have fragmented, even the most trusted importers have a less complete view of the multiple parties and processes that have played a role in their products. The principle of informed compliance means that ignorance is no excuse. But importers find themselves in the difficult position of making statutory declarations based on information that they have not created or verified. The result is that they do their best and hope to avoid a potentially costly customs audit.

Recommendation: The three governments should develop a pilot supply-chain transparency program, starting with the highest level of trusted traders. The program would reward firms that invest in advanced predictive analytics and other technologies that provide a comprehensive view of their supply chains. Participating firms would share their data and analysis with the governments on a real-time basis. This would allow the authorities to assess security and customs-compliance risks more accurately. In exchange for these investments and enhanced transparency, companies would receive an exemption from import-related penalties and remission of duties payable, except in cases of fraud, malfeasance, or gross negligence.

2. Complete the harmonization of trusted trader programs across North America.

Canada's Partners in Protection (PIP), the United States' Customs-Trade Partnership Against Terrorism (C-TPAT), and Mexico's *Nueva Esquema de Empresas Certificadas* (NEEC) operate in a similar way: members undertake to secure their supply chains and share information with customs authorities in exchange for expedited treatment at the border. Under a June 2008 agreement, Canada and the U.S. each recognized the other's trusted trader program. The two countries took another step forward in the 2011 Beyond the Border Action Plan by agreeing to harmonize eligibility requirements for the two programs, allow a single application, and enhance existing benefits. However, the 2011 agreement has yet to be fully implemented.

Meanwhile, the U.S. and Mexico agreed in October 2014 to mutually recognize their two programs. This agreement should be implemented without further delay.

Recommendation: The three governments should fully align their trusted trader programs by January 2016. They should also undertake an assessment of all three programs to ensure they operate smoothly with one another. They should allow companies to file a single application for admission to all three programs.

These trusted trader schemes currently cover only import procedures. In consultation with the trade community, governments should explore the introduction of an export module along the lines of the World Customs Organization's Authorized Economic Operator (AEO) program.

3. Apply the principle of “inspected once, accepted thrice” to inbound cargo. The Beyond the Border Action Plan envisaged an integrated cargo security regime under which cargo would be inspected only at its first point of entry into Canada or the U.S. Once cleared, the governments would apply the principle of “inspected once, accepted twice” if the cargo moved between the two countries. A pilot project is in operation for cargo from Prince Rupert, British Columbia, to Chicago. It has faced some operational challenges, but the underlying principle has proven sound. The time has come for broader coverage.

Recommendation: Canada and the U.S. should extend the “inspected once, accepted twice” principle across the entire shared border by June 2016. In doing so, they should work closely with major carriers to ensure that hauling such cargo is commercially viable. The ability to add or remove cargo at hubs, as is the case for standard shipments, should be an important element in the expanded program. At the same time, Canada, the U.S. and Mexico should identify a pilot route to test the “inspected once, accepted thrice” principle. This will lay the foundation for an integrated cargo strategy across North America. It is vital that each partner make the necessary investments at key ports of entry to ensure full application of the perimeter concept in preventing illegal migration and in shielding North America from hazardous and counterfeit goods, invasive species and epidemics.

4. Create a “single window” for customs procedures in each country and apply it across North America. Any trade facilitation agenda must include a single window as a key component. The paperwork and complexity of the import process can be significantly reduced by allowing traders to provide all required information through a single portal. The three countries have been working on such a system for years but inter-agency complexities and computing challenges have slowed progress. President Obama issued an executive order in February 2014 requiring all federal agencies to complete their work on the U.S. single window by the end of 2016. Under the Beyond the Border plan, Canada and the U.S. aimed to complete single windows for their top four government departments by the end of 2013. While the work is behind schedule, it is moving forward. One recent suggestion to accelerate the project is an open-source competition to complete the unfinished components.

Recommendation: Canada, the U.S. and Mexico should complete their single window portals and enable them to communicate with one another by the end of 2017. Given the slow progress to date, the governments should explore creative solutions, including an open-source challenge for incomplete parts of the system. Cash prizes would be awarded for the most effective results. Such competitions have been successfully used to design, for example, an alert system for product recalls and body armour for law enforcement officials. This approach is well suited to the single window project.

5. Agree on a common set of advance data required for cargo screening. Canada, the U.S. and Mexico presently require importers to submit various data elements to customs authorities prior to the arrival of cargo. Canada and the U.S. agreed in Beyond the Border to harmonize this information with the goal of making cross-border security screening more effective and the completion of importer paperwork more efficient. The two countries have made important progress in aligning the requirements contained in their e-Manifest and Importer Filing Regimes respectively. Building on this work, they should intensify collaboration with Mexico with a view to finalizing a common set of data elements and procedures by June 2016. Common data elements will make cross-North America risk assessments possible, and improve the ability of governments to discern patterns in cross-border cargo movements.

Recommendation: The three countries should develop a common set of data elements that carriers are required to submit in advance of the arrival of imported cargo. They should also harmonize procedures for submission of data, including deadlines for its receipt. The project should accommodate special cases, such as producers operating just-in-time facilities close to a border.

6. Provide enhanced import and accounting benefits to the most trusted traders. Firms that ship a sizeable volume of goods across North America's borders face a mountain of paperwork. Yet many supply chains are predictable and repetitive: the same truck drivers ferrying the same goods from the same companies through the same ports of entry, several times a week. The highest volume, most trusted traders should qualify for a significantly enhanced level of border-procedure benefits in exchange for adopting appropriate control systems and processes.

Canada's Customs Self-Assessment (CSA) program provides an excellent model. Participating firms are not required to submit data in advance for goods arriving directly from the U.S. or Mexico, unless they are subject to inspection by departments other than customs (for example, the agriculture department). Truck drivers simply swipe a CSA bar code and go. Streamlined accounting procedures are arguably the most significant self-assessment benefit. Participating firms can provide Canadian customs with a summary of their trade data and revenue paid on a monthly basis, rather than presenting full import documentation at the time of entry. This saves an enormous amount of duplicated paperwork. CSA-approved firms have opted for a high level of information sharing and cooperation with government. They have put advanced systems in place. They face severe penalties if they violate this trust, so infringements are rare. In short, the system delivers enhanced security and compliance benefits to governments, and streamlined trade procedures to businesses.

Recommendation: Using Canada's CSA as the model, the three countries should examine how to provide enhanced benefits to their highest volume, most trusted shippers for imports originating in North America. Firms domiciled in any of the three

countries that meet the compliance thresholds should be eligible. Canada, the U.S. and Mexico should aim to have a common regime along the lines of CSA in place by January 2017.

7. Significantly expand customs pre-inspections for high-volume shippers. A sizeable share of North American trade takes place either within a single company or within a well-established supply chain. Much of this traffic is predictable and originates in plants that produce large quantities of the same item. Many of the firms that operate these facilities would welcome – and be willing to pay for – customs and security inspections on their premises if the result was faster transit times at the border.

Four things are needed to enable effective pre-inspection:

- A sufficient number of inspectors, whose work could be supplemented by trained certified contractors under the supervision of the officials.
- Standardized equipment and technology, including tamper-proof seals on inspected trucks that would emit a beacon if opened, and in-truck monitoring devices to warn of deviation from designated routes.
- Acceptance of these pre-inspections at the border, with re-inspection only for audit purposes.
- Fast lanes for pre-inspected traffic at ports of entry.

By streamlining traffic and making supply chains more visible, a comprehensive system of pre-inspection would allow authorities to focus their compliance efforts on higher-risk shippers.

Recommendation: The governments should develop procedures by the end of 2015 to implement a user-pay pre-inspection regime. Pilot projects at no fewer than five business facilities engaged in significant cross-border trade should come into operation by the end of 2016.

8. Establish a trade-facilitation advisory board. Smooth cross-border commerce depends as much on the day-by-day application of rules and standards as on ambitious trade agreements. While mechanisms exist to resolve policy disputes, there is no formal oversight of the many technical rules that govern cross-border trade.

Existing bilateral bodies such as the Canadian-American Business Council and the Border Trade Alliance can gather such information, as well as solicit recommendations for improvement and track feedback. Regional forums such as the

Pacific Northwest Economic Region (PNWER) and local entities such as the San Diego-Tijuana Smart Border Coalition can play a similar role.

Recommendation: Establish a North American trade facilitation advisory board made up of public and private sector representatives from the three countries. The board would receive submissions and hear concerns about the application of technical trade rules. It would highlight strengths and weaknesses by publishing an annual report as well as issue-specific reports as needed. Such a body would go a long way towards ensuring that the nuts-and-bolts plumbing of North American trade is as efficient as the architecture.

Trade-related infrastructure

Infrastructure is the life-blood of the North American economy, yet investment in ports of entry and related transport assets has not kept pace with the surge of trade over the past 20 years.

According to the Congressional Research Service, U.S. trade with Mexico soared more than six-fold between 1993 and 2013 while U.S. trade with Canada tripled. Yet spending on border-related infrastructure hardly budged during that period. The result is that maintenance and replacement work is far behind schedule and has not kept up with fast-expanding border crossing volumes. The costs of this under-investment are evident in lengthy delays at major crossings, creating difficult conditions for border agencies and traders. These issues add costs and impede the efficiency of North American supply chains.

The three governments should make a stronger commitment to invest in border-related infrastructure. They need not do this entirely through appropriations, given their fiscal challenges. Rather, they should employ a variety of financing models, including public-private partnerships, and bring together respected experts to devise a realistic plan to fund future border infrastructure needs.

Goals:

- Ensure that border capacity can handle traffic volumes.
- Embrace non-traditional financing tools for trade-related infrastructure.
- Improve efficiency at border crossings by redesigning physical layout and workflow.
- Measure throughput volumes in greater detail to drive efficiency.
- Prioritize infrastructure investments based on trade needs.

Proposed actions:

9. Transform the North American Development Bank into a region-wide infrastructure bank. Much of North America's border infrastructure is old and ill-suited to the present volume of trade and travellers. The traditional model of financing new infrastructure and repairs through annual appropriations has generally fallen short of the needs. The three countries would benefit from a dedicated institution for financing infrastructure along North America's trade corridors. One option is for Canada to join the North American Development Bank, and work with the U.S. and Mexico to transform the institution into a vehicle for funding roads, bridges, customs plazas, and border-related technology and services.

Recommendation: The three countries should transform the North American Development Bank into a single-purpose institution that finances infrastructure projects along the Canada-U.S. and Mexico-U.S. borders. Supply-chain infrastructure projects that link across borders and support regional trade should also be eligible. The bank's revised rules should encourage partnerships with the private sector. Its current commitment to sustainable development projects would remain in place.

10. Use public-private partnerships to finance cross-border infrastructure. Public-private partnerships, known as P3s, have become a popular vehicle over the past two decades to finance and operate infrastructure projects. P3s open up numerous financing options by the parties sharing risk and responsibilities. Canada has been at the forefront of the P3 experiment. Infrastructure Ontario, a government agency that has overseen numerous P3s, is sharing its expertise with at least three U.S. states under an agreement with the U.S. National Governors Association. One P3 experiment taking shape on the U.S.-Mexico border is the Cross Border Xpress pedestrian bridge connecting San Diego with Tijuana International Airport. When completed, passengers will pay \$20 to park on the U.S. side and cross the bridge to the airport. The fee will cover infrastructure costs, as well as a 24-hour Customs and Border Protection presence.

Recommendation: Canada, the U.S. and Mexico should apply the public-private partnership model to the construction and operation of cross-border infrastructure. In doing so, the countries should share experiences, create a model regulatory structure, and cooperate to promote projects to potential investors. Much like Cross-Border Xpress, these projects should include financing both for the infrastructure and the cost of required customs and immigration personnel.

11. Convene a trilateral group of experts on financing cross-border infrastructure. We will not get the top-notch trade and border infrastructure our countries need unless we find imaginative and innovative ways of financing it. Governments have typically financed border infrastructure through appropriations or fees in view of the

complexities of bi-national projects. But the business of financing physical assets and services has undergone a transformation over the past three decades. It is time to apply the latest practices to the financing of cross-border infrastructure.

Recommendation: Convene a trilateral group of public and private experts in infrastructure financing and border issues to develop alternative financing and delivery models for trade-related infrastructure and services.

12. Improve the physical layout and workflow at major border crossings. Urban planners know that design can drive outcomes. Yet many North American ports of entry have the same physical layout today as they did decades ago when traffic volumes and security checks were much lighter. Border officials still conduct their primary customs and immigration screening from booths, much as they have for decades. This has resulted in heavy congestion at peak periods, often making trusted traveller lanes unusable.

The re-design of these facilities could bring a vast improvement in efficiency. Throughput volumes could undoubtedly be increased if officers collected basic information with handheld devices while vehicles were waiting in line. Modern medicine allows doctors to concentrate on their specialized tasks while others handle primary intake and assessment procedures. Similarly, customs authorities could apply more rigorous procedures at border crossings to stream trusted and regular traffic, and to delineate officers' responsibilities.

Recommendation: The three governments should hire expert advisors to assess the physical layout and workflow of border crossings, starting with the busiest ones. The advisors should release public recommendations for improving the efficiency of border infrastructure and processes. They would also set benchmarks for measuring progress over time.

Manufacturing

North American manufacturing is highly integrated, with items crossing borders multiple times in the course of assembly and processing. As is often said, we make things together across North America rather than manufacture the same product in different countries.

Yet our continent has turned in an uneven performance in manufacturing in recent years. While all three countries lost significant capacity to East Asia in the early 2000s, the U.S. and Mexico began to see a broad improvement in their competitiveness about five years ago.

Boston Consulting Group (BCG) describes Mexico as a “global rising star” in its 2014 manufacturing cost competitiveness index. It estimates that average direct manufacturing costs in Mexico are 4% lower than in China. The result has been a surge of investment in Mexican manufacturing. BCG also classifies the U.S. as a “global rising star”, noting that its manufacturing sector has benefited from productivity growth and a drop in energy costs as a result of the surge in domestic natural gas output.

By contrast, Canada has seen its cost competitiveness decline over the past decade. A higher cost structure and continued uncertainty over border security measures have discouraged new manufacturing investment.

While the three North American countries compete against each other in the manufacturing realm, they also face common challenges. Rivals abroad will not easily allow the North Americans to overtake them. As a result, all three countries will benefit by addressing some common competitiveness challenges.

Goals:

- Build a strong manufacturing sector to boost the economy and job creation.
- Government policies should encourage processing and assembly in North America.
- Build a Made in North America brand internationally.

Proposed actions:

13. Negotiate a North American automotive competitiveness agreement. The North American automotive industry has developed highly integrated and sophisticated cross-border supply chains. Parts and components cross the Canada-U.S. and U.S.-Mexico borders an average of seven times as they are assembled into vehicles.

But the auto sector has paid a heavy price for stepped-up border security over the past dozen years. It has also been hurt by a divergence in some vehicle safety and operational regulations among the three countries. Governments could improve the competitiveness of manufacturing across the region by taking a systemic view of major sectors, starting with autos, in order to address how borders are impeding efficiency.

The Michigan-based Center for Automotive Research (CAR) has noted that a shipment of 4,000 cars from South Korea requires a single customs clearance at the North American port of entry before heading to a dealer’s lot. By contrast, the components used in 4,000 vehicles assembled in North America must undergo an estimated 28,000

customs clearances before they reach a dealer. CAR estimates that these multiple border-compliance measures add \$800 to the cost of building a vehicle in North America. Such wasteful redundancy cries out for reform, especially when even a few hundred dollars can make the difference in a vehicle purchase decision, and at a time when automakers are moving to global platforms.

Canada, the U.S. and Mexico have an understandably strong focus on border and supply-chain security. Yet mind-boggling inspection procedures and accompanying mountains of paperwork are surely not the best way to achieve that goal. Most of the automotive assemblers and their tier-one suppliers are enrolled in the U.S.'s Customs-Trade Partnership Against Terrorism (C-TPAT) program and their truck drivers are certified under the Free and Secure Trade (FAST) trusted traveller program. Yet the paperwork required from these supposedly trusted shippers is as onerous as it is for drivers who have not been certified and are thus presumably less trusted. Such anomalies contribute neither to supply-chain security nor to the competitiveness of North America's largest manufacturing sector.

The auto sector has played an important role in piloting many trade facilitation measures. The 1965 Canada-U.S. Auto Pact laid the foundation for broader free trade across North America. At a more granular level, the auto sector was the driving force behind many trusted-trader innovations in the 1990s and 2000s designed to streamline border procedures. We should again begin with the auto sector as we take up the challenges of extreme redundancy at the border and regulatory divergence.

Recommendation: The U.S., Canada and Mexico should negotiate a North American automotive competitiveness agreement by 2017. The agreement would seek to reinforce security, safety, and compliance by taking a regional view of the industry. Supply chain transparency would be a major goal. Regional oversight and certification of suppliers may be another. While North America's automakers and suppliers will never achieve their dream of a single inspection for each batch of 4000 vehicles, the authorities should apply technologies and procedures that come as close as possible to that goal. If this systemic approach bears fruit for the auto industry, it can be extended to other integrated manufacturing sectors.

14. Harmonize procedures, standards and nomenclature in the meat sector. If the auto industry is the most integrated North American sector, then the food industry comes a close second. Cross-border linkages are especially intricate in meat production. Cattle and pigs crisscross borders at various stages of the food chain, from birth, raising, slaughter and processing, to distribution of ready-to-eat meat products.

The meat supply chain faces a number of challenges, including cumbersome border procedures, discrepancies in nomenclature, and disparate inspection approaches. Canada and the U.S. have made progress on nomenclature issues through the

Regulatory Cooperation Council. These efforts should be widened and deepened. Further work will be necessary to achieve similar equivalence with Mexico.

Recommendation: Food inspection agencies in Canada, the U.S. and Mexico should develop a common regime for meat products by 2018. Given relative starting points it may be necessary for the three countries to move at different speeds in achieving these common objectives. The U.S. Department of Agriculture and the Canadian Food Inspection Agency could perhaps begin by moving to a converged inspection approach by 2016. This would eliminate the need for re-inspections at the border and duplicative processing facility certifications. Based on this experience, the three countries could proceed to a common regime by 2018. As part of these efforts, the agencies should strengthen their existing memorandums of understanding. The new provisions would include mutual recognition of inspections done by one or more of the agencies in countries outside North America.

15. Develop and promote a Made in North America brand. Labels matter. Products of integrated, cross-continental supply chains should be labelled Made in North America. The auto industry already uses a Made in U.S./Canada label to denote the reality of cross-border production of parts and vehicles. There is no reason why this practice should not be extended to other sectors. A Made in North America label would provide an excellent foundation for branding the region and its quality products on a global scale. The label could include additional information, such as details of the national or sub-national jurisdictions where specific parts of the product were made or processed.

Recommendation: Develop a Made in North America label for the products of integrated cross-border supply chains. The governments can subsequently begin to consider how to brand North America as a region internationally.

Energy and environment

North America is blessed with an abundance of energy resources, including fossil fuels, nuclear, bio-energy, and a diverse array of low-carbon and renewable energy sources. The continent is also home to enterprises with the capital, creativity and human talent to design energy systems that meet the needs of the 21st century. These multiple advantages create jobs and bring economic prosperity. Our energy leadership can reinforce cross-border supply chains, create new technology partnerships and further improve the competitive position of the North American economy. Mexico's recent energy reforms will only amplify these advantages. Smart public policy and private-sector ingenuity can also help ensure that our energy needs are met with a much smaller environmental footprint.

Goals:

- Demonstrate the power of market-based policies to produce reliable, secure and environmentally responsible energy.
- Maximize the efficiency of cross-border energy infrastructure.
- Share best practices in sustainable energy production and distribution.
- Address our shared environmental challenges in a coordinated fashion.
- Coordinate our approach to combating invasive species.

Proposed actions:

16. Compile a regular report on North America's energy outlook. The three countries require a more comprehensive view of their collective energy assets if we are to realize the North American energy advantage. Most of this information resides with national governments. The governments as well as the industry would reap distinct advantages if the three countries joined forces to produce a regular report that maps energy resources and infrastructure across the continent. Such a venture would help identify natural synergies and opportunities for collaboration, while pointing out potential weaknesses.

The Quadrennial Energy Review carried out by the U.S. Department of Energy does this from a U.S. perspective, building on the valuable work of the Energy Information Administration. Canada's information base is somewhat more fragmented between the National Energy Board and various provincial governments. Meanwhile, Mexico is still assessing its full energy potential. Although each country obviously has an interest in a high quality domestic analytical base, there are tangible advantages in compiling a wider, North American perspective.

Recommendation: The governments should commit to issuing a report on North America's energy outlook every 4-5 years. The publication will provide a continent-wide overview of energy opportunities, infrastructure, deficiencies, and challenges. It would provide a basis for governments to identify synergies and would contribute to better policy-making in the energy area.

17. Develop a trilateral strategy to advance renewable and low-carbon energy technologies. Canada and the U.S. launched the Clean Energy Dialogue in 2009. A number of working groups were created, but the initiative lacked a clear strategy. Much has changed in the energy industry since then, and the need for a robust clean-energy game plan has never been greater. According to the International Energy Agency, renewable sources (including wind, solar, and hydro) made up almost 22% of global power generation in 2013, on a par with natural gas. Furthermore, China alone accounts for 40% of global growth in renewables, far outstripping North America. We

should not lose sight of the fact that growth of renewables and low-carbon technologies creates investment and export opportunities for those willing to take advantage of them.

Recommendation: The governments of Canada, the U.S. and Mexico, in conjunction with major industry associations, should work together to develop a coherent North American strategy to advance renewable and low-carbon energy technologies. The initiative should include agreement on a common definition of “renewable” to ensure, for example, that hydro-electric power is included, as it is by the International Energy Agency. It should also look at harmonization of standards and identify creative ways to disseminate advanced energy technologies. Specific technical areas could include smart grids, energy storage, carbon capture and storage, and advanced technology vehicles. The strategy should also include a proposed roadmap for implementation.

18. Spur innovation in the energy sector through technology collaboration. The North American energy revolution has been built on technology and huge capital outlays. The three governments need to maintain the momentum by working with companies and industry associations to create pan-North American energy partnerships. A good model to examine is the Canadian Oil Sands Innovation Alliance, a partnership between leading Canadian and international companies that drives open, non-competitive technology collaboration on the oil sands’ biggest environmental challenges, including tailings, water, land, and greenhouse gases. The alliance’s 13 members have so far shared 560 distinct technologies that cost over \$900 million to develop. Another innovative approach is the Climate Change and Emissions Management Corporation, which collects the money raised by Alberta’s carbon levy and uses it to leverage investments in an array of emissions-reducing technologies. These are examples that could potentially be adapted more broadly across the entire North American energy sector.

Recommendation: Lay the groundwork for technology partnerships with the goal of addressing large-scale energy industry challenges, including on the environmental front. The main thrust would need to come from the private sector. But the three governments could encourage collaboration with specific instruments such as tax incentives.

19. Set up a technical body to work on cross-border elements of energy infrastructure. North America’s energy system is among the most extensive and sophisticated in the world. The surge in production coupled with Mexico’s recent reforms is driving a further expansion. Major new areas of oil and gas production have inadequate access to pipelines to carry their output to refining and distribution centres. These bottlenecks have spawned creative alternatives, including a surge in the quantity of oil transported by rail. On the electricity side, the inter-connection between the U.S. and Mexican grid systems is modest compared to that between the

U.S. and Canada. But with the termination of Mexico's state power monopoly, new players are bound to emerge and opportunities for cross-border electricity trade and infrastructure will grow. And in transportation, alternative fuels – including biofuels, natural gas and electricity – are increasingly being utilized. Given the integration of North American transportation systems, we also should be thinking about how to plan and build a seamless continent-wide fuelling infrastructure for road, rail and marine.

North America needs not only more but also better energy infrastructure. Canada, the U.S. and Mexico began to take the safety and reliability of energy infrastructure more seriously after 9/11 and the widespread 2003 blackout. While a good deal of coordination now takes place, especially between Canada and the U.S., the three countries still do not look at energy infrastructure on a continental basis. Closer cross-border coordination is needed to plan against potentially catastrophic threats, ranging from system failures to cyber-attacks.

Recommendation: Create a North American energy coordination centre to address the cross-border dimensions of the continent's energy system. Coordinating with existing technical bodies, such as the North American Electric Reliability Corporation, the new agency's activities could include: assessing the strengths and weaknesses of current North American energy infrastructure; developing protocols for information sharing and coordinated response to threats to the system; and encouraging adoption of advanced technologies across the region, including smart grid and pipeline technologies.

20. Streamline the approval process for cross-border energy infrastructure. North America already has a diverse array of cross-border energy infrastructure. Yet as energy output grows, the need for additional facilities will only increase. Many new production areas have opened over the past decade, many of them with limited or no access to established infrastructure. The approval process for new installations needs to be certain and efficient if future energy supplies are not to be jeopardized.

Recommendation: Governments should cooperate to ensure that the approval process for cross-border energy infrastructure is efficient and predictable, and results in timely decisions.

21. Build stronger alliances among energy regulators. Collaboration among national energy regulators from the three countries has increased in recent years. Nonetheless, much scope remains to build long-term relationships, identify best practices and foster alliances at the sub-national level. As Mexico seeks assistance to build a world-class regulatory regime and Canada and the U.S. face surging output, all three countries would benefit from a regular dialogue among their energy regulators. Mexico took a step forward in June 2014 by signing a memorandum of understanding with the Alberta Energy Regulator. The goal should be to demonstrate a commitment

to regulatory excellence in North America – focused primarily on systems management, strong performance by regulated entities, and building public confidence.

Recommendation: Regular meetings among regulators at the national and sub-national level, as appropriate, should aim to develop best practices in energy regulation, harmonize standards and identify areas for research and collaboration. The process should include a mechanism for consultation with leading private sector players in the energy field.

22. Develop a voluntary North American code of conduct for hydraulic fracturing (fracking). The fracking revolution has transformed North America’s energy landscape and produced an array of positive economic impacts. But even as the safe use of fracking technology has grown, the practice remains controversial in the U.S. and Canada. As Mexico and other countries move to develop their shale resources, there is scope to improve standards and to help them exploit their deposits in a responsible way.

Recommendation: Building on the approach of the Canadian Association of Petroleum Producers, governments should encourage North America’s petroleum industry associations to explore a voluntary code of conduct on hydraulic fracturing. The code could include policies for disclosure of the chemical content of fracking fluids; regional groundwater monitoring programs; sound well-bore construction practices; and recycling and use of fresh water alternatives. A transparent, high-quality standard will enhance the industry’s production practices and improve the public’s perception of them. What’s more, such advances could open new areas in and outside North America to fracking production.

23. Convene a North American “vision group” on energy and the environment. There has been much discussion in recent years about the North American “energy revolution”. The oil sands, fracking, new hydro-electric projects and renewable sources have greatly expanded Canada’s energy capacity, and the potential for future growth is immense. The U.S.’s energy outlook has been transformed as domestic oil production surges. The U.S. now produces so much natural gas that it is set to become a major exporter. Mexico has responded to the energy revolution to its north and to its own declining domestic oil revenues by adopting a far-reaching package of energy reforms. Yet little analysis is available on the cross-border synergies and opportunities offered by these momentous developments. There is also little coordination or dialogue on the environmental dimensions of North America’s energy revolution, nor on collaboration to strengthen energy security while making the transition to a lower-carbon economy.

Recommendation: Convene a North American “vision group” on energy and the environment. Made up of respected individuals with strong public policy backgrounds, the group would identify ways to maximize benefits from the North American energy revolution, and address associated environmental challenges. The Canadian and U.S. governments have successfully used this “eminent persons” approach to resolve past environmental challenges.

24. Pursue a coherent approach to climate change. Climate change is a massive global challenge that requires an array of coherent public policy responses. But it is also a highly-charged and multi-faceted issue that does not easily lend itself to coherent coordination. Canada, the U.S. and Mexico already collaborate on climate change issues through mechanisms such as the Major Economies Forum and the Climate and Energy Partnership of the Americas. In addition, they have taken the lead in advocating an amendment to the Montreal Protocol for stronger action to reduce the use of climate-damaging hydro-fluorocarbons (HFCs). The three countries should actively consider broadening their work in this area. Other measures could include:

- A coordinated approach to international climate-change talks aimed at finalizing a new agreement in Paris in 2015.
- Building on areas of existing collaboration, such as a further harmonization of energy efficiency and greenhouse gas standards for vehicles and equipment.
- Wider efforts to coordinate research and development on emerging low-carbon energy technologies.

Recommendation: The three governments should launch a dialogue on a coordinated North American approach to climate change. It will be important to include the private sector and other stakeholders as the discussions move forward.

25. Accelerate plans to protect the monarch butterfly. The monarch butterfly has been called the only truly North American citizen, since its annual migratory pattern takes it across all three countries. It is one of the most recognizable insects on the continent and a symbol of the ties that bind the three countries. Protection of habitat throughout North America is critical to the butterfly’s continued survival. North American leaders agreed at their Toluca Summit in February 2014 to set up a working group to protect the monarch.

Recommendation: The three governments should move ahead with plans for the monarch butterfly working group, and accelerate its work program.

26. Coordinate action against invasive species. Invasive species – plants, insects, mollusks, fish and animals – have become a growing trans-boundary challenge. Beyond the significant environmental damage, the forestry, fishing, and tourism

sectors, among others, have faced significant losses due to invasive species such as zebra mussels and Asian carp. These nefarious plants and animals know no boundaries and thus pose a threat to regional eco-systems and economies. Collaboration between Great Lakes states and provinces working with their federal authorities to deal with the zebra mussel and other invasive species is an example of a cooperative response.

Recommendation: Recognizing that “an ounce of prevention is worth a pound of cure”, we encourage authorities at all levels in the three countries to develop a continent-wide view of the invasive species threatening North America, and to devise ways to counteract them. New initiatives should build on the work of existing cross-border bodies at the federal and sub-federal levels.

Regulatory cooperation and alignment

Governments regulate in many ways and for many reasons. The three North American governments have become more active in recent years in encouraging regulatory cooperation by sharing information and, in some cases, aligning rules and procedures. Even so, navigating the patchwork of regulations applied by three separate countries can be challenging and expensive for firms involved in cross-border trade.

The regulatory harmonization achieved so far has brought substantial savings in the form of lower compliance costs and simplified processes. But the intricacy of the rules, in whatever sector, tends to be beyond the grasp of most non-experts. While policy-makers like the idea of regulatory cooperation, most lack the patience and technical expertise to fully grasp the nuances. Those with the power to make decisions must be made to understand and care about the importance of aligning the three countries’ rules.

Canada and the U.S. have made progress through the Regulatory Cooperation Council, which has worked on 29 action items since its formation in 2011. The two governments announced a new initiative in August 2014. Known as the Joint Forward Plan, it sets out longer-term bilateral planning processes involving an array of U.S. and Canadian regulatory bodies. The U.S.-Mexico High-Level Regulatory Cooperation Council, also launched in 2011, has made less progress. It nonetheless has potential for success.

The time is ripe for the three governments to examine ways of encouraging trilateral regulatory cooperation.

Goals:

- Develop evidence-based regulations.
- Apply risk management to the development of rules.
- Consult trilaterally before implementing important new regulations.
- Pursue regulatory alignment wherever possible.
- Devise a redress mechanism for the private sector.

Proposed actions:

27. Experiment with trilateral regulatory cooperation. The U.S.-Canada Regulatory Cooperation Council and the U.S.-Mexico High-Level Regulatory Cooperation Council have each proceeded along their own paths. Their uneven progress makes it impractical to bring them together at this time.

However, the 29 action items tackled by the Regulatory Cooperation Council augur well for broader cooperation between the U.S. and Canada. Regulators have become acquainted with each other, tested their core assumptions, and developed trust. A similar process of trust-building with Mexico will be essential if it is to join these collaborative efforts in a meaningful way.

Recommendation: The three governments should identify 2-4 action items from the Canada-U.S. Regulatory Cooperation Council list that can be extended to Mexico. The items should be ones where Canada and the U.S. have made substantial progress and where Mexico applies a similar regulatory approach. The three countries should then work to complete regulatory alignment in these areas within 18 months. Once this experiment is complete, the countries can draw up a more detailed work plan for trilateral cooperation.

28. Devise an “align or explain” mechanism to encourage regulatory cooperation. The areas of cooperation identified so far by the two cross-border councils cover only a tiny sample of the three countries’ divergent regulatory measures. While the governments did consult the private sector on the launch of the collaborative processes, this happened some years ago. The Regulatory Cooperation Council and High-Level Regulatory Cooperation Council should now put a mechanism in place through which the private sector can provide targeted recommendations to governments on the harmonization of specific regulations. This mechanism would build on Section 3 of President Obama’s Executive Order 13609, which commits the U.S. Government to address divergences in significant regulations when stakeholders provide adequate information about the need for alignment.

Recommendation: The three governments should devise an “align or explain” mechanism to encourage regulatory cooperation. Private-sector parties could use this mechanism to petition for alignment of specific regulations, on condition that they were able to show a critical mass of support in their specific industry or sector. (The mechanism would need to set appropriate thresholds to determine such support.) Governments would be required to respond to a petition within a set period of, say, 120 days. They would have two options: proceed with alignment, or provide a written, public explanation why the petition was being turned down.

Trade rules and practices

NAFTA has provided the legal foundation for our continent’s integrated supply chains for the past 20 years. While the agreement has been enormously successful in driving trade, investment and wealth creation, it was negotiated in a pre-Internet world and reflects an industrial structure that is now outdated. NAFTA remains controversial in some quarters which rules out a formal overhaul for the time being. Meanwhile, the trade agenda has moved on, most notably through major trans-Atlantic and trans-Pacific negotiations now underway.

Goals:

- Aspire to best-in-the-world international trade rules.
- Ensure that trade agreements reinforce North American supply chains.
- Pursue continuous improvement through existing trade mechanisms.
- Ensure seamless shipment of goods across all modes of transport.

Proposed actions:

29. Exchange information on bilateral trade negotiations relevant to integrated industries. Countries routinely seek bilateral arrangements on specific, sensitive issues in trade negotiations. Yet in sectors that are tightly interwoven between the three North American countries, the risk of disrupting supply chains is not insignificant when one of them seeks a bilateral arrangement with a third country. If the proposed Trans-Pacific Partnership is to preserve and reinforce North American supply chains, Canada, the U.S. and Mexico will need to find a way of exchanging information in cases where bilateral talks affect industries that operate in more than one of the countries. The auto sector is a prime example. The U.S. is negotiating a bilateral auto agreement with Japan as part of the Trans-Pacific Partnership talks. Japanese automakers have assembly plants in all three North American countries and buy from many of the same suppliers as their Detroit-based rivals. The American Automobile Labelling Act of 1992 stipulates that “domestic content” includes

components from Canada, and that qualifying vehicles be labelled Product of U.S./Canada. In short, the U.S.-Japan talks clearly have a bearing on Canadian interests.

Recommendation: Canada, the U.S. and Mexico should develop a list of highly-integrated industries affected by multilateral trade negotiations. When any of those industries becomes the subject of a bilateral negotiation between one of the three governments and a non-North American country, that government should brief its two North American partners on the talks at least once every three months. These briefings will enable the partner countries to raise concerns about elements of the bilateral talks that could threaten the integrated nature of the sector.

30. Ensure that North American content counts in meeting European origin rules.

Expanded trans-Atlantic free trade is sure to be important for both European and North American partners. Canada has concluded a free trade negotiation with the E.U., and the U.S. is now in the throes of negotiating its own. Mexico has announced plans to update its 2000 free trade agreement with the E.U. Yet North America is not in a position to gain maximum benefit from these agreements because each of the three countries is treated separately, rather than as part of a regional trading bloc like the E.U. itself. This shortcoming applies especially to rules of origin. The E.U. can count inputs from all 28 member states to comply with rules of origin thresholds for preferential entry into North America. By contrast, Mexico, Canada, and the U.S. cannot count content from across North America for preferential entry into Europe.

Recommendation: Canada and Mexico should work with the U.S. to include a North American “cross-cumulation” mechanism in the three countries’ trade agreements with the E.U. Exporters could then count content from across the NAFTA region to qualify for preferential entry into the European free trade area.

31. Pursue similar cross-cumulation arrangements with common free trade partners.

Canada, the U.S. and Mexico have concluded separate free trade agreements with Chile, Colombia and Peru, all members of the Pacific Alliance. None of these agreements takes account of potential benefits from the others. Canada is pursuing a framework that would allow for cross-cumulation of content between Peru and Colombia to meet the rules of origin for entry into Canada. The U.S. allows Central American countries to count Mexican content for certain items of clothing. The North American countries need to ensure that their respective trade agreements recognize one another’s content for rules-of-origin purposes.

Recommendation: Canada, the U.S. and Mexico should establish a cross-cumulation mechanism to link their common free trade agreements in the Americas, starting with the Pacific Alliance countries.

32. Dismantle barriers to seamless transport networks. The three countries have made progress over the past 20 years towards integrating their transport networks, but numerous barriers remain. Some anomalies, such as the need to subsidize services to small and remote communities, must be preserved. But most can and should be eliminated in the interest of creating an efficient pan-North American transport system. The first step is to document the barriers. To that end, the three governments should commission a region-wide analysis by a team that includes at least one major research institution from each country.

Some barriers are already well documented and should be addressed without further delay. A good example is the inefficient and costly re-positioning of empty truck trailers used for cross-border transport. After drivers drop off their loads, they should be allowed to move empty trailers to a transit hub, thereby returning them to the stream of commerce, rather than having to haul the empty trailers back across the border. This is not cabotage because no freight is being hauled point-to-point within the same country by a foreign driver. It is simply a matter of allowing trucking companies to deploy their capital assets efficiently.

Recommendation: Canada, the U.S. and Mexico have made good progress in liberalizing cross-border transport. The governments should now commission an external study of remaining barriers and move quickly to address them.

33. Issue a regular report on the North American transport outlook. The three governments should compile a regular transport outlook report covering rail, road, air, and shipping. The publication would provide forecasts of traffic volumes for the various modes and examine factors that impact their competitiveness. This would be an excellent tool for incorporating cross-national considerations into government and business decision-making.

Recommendation: The governments should issue a comprehensive report on the outlook for North American transport every 4-5 years. The publication would provide a valuable overview of transport opportunities, challenges and infrastructure readiness across the continent.

Skills and jobs

Employers in Canada, the U.S. and Mexico are grappling with skill shortages in certain industries and regions. At the same time, they are facing restrictions on their ability to relocate workers to where they are needed. Complicating the dilemma of “jobs without people and people without jobs” are the politics of immigration. The ability to train more skilled workers and facilitate their placement remain key factors in sharpening North American competitiveness.

Goals:

- Efficient placement of skilled workers.
- Investment by governments, employers and individuals in continuous education.
- Underline the value of professional trades.
- Closer links among universities and technical colleges, and other post-secondary institutions across North America.
- Standardized professional nomenclatures and accreditation requirements.
- Empower cross-border communities to make efficient use of available labour.

Proposed actions:

34. Develop a process to standardize skills and training requirements across North America. There is a wide variation in training, apprenticeship and accreditation processes for professions across North America. This is an enormous challenge, made even more complex by sub-national jurisdiction over accreditation in many sectors. The first step towards resolving the problem is to set up a forum where the issues can be analyzed and discussed. To this end, the three governments should form a consultative committee on skills harmonization, including public and private sector members.

The committee would be modelled on the North American Steel Trade Committee – a trilateral entity designed to facilitate coordination and cooperation in one of the region’s most important industries. Governments could work through the skills harmonization committee to encourage professional societies, trade associations, and labour unions to collaborate in developing common definitions and a framework for training and certifying specific trades and professions. Governments could throw their weight behind the push for mutual recognition of professions across North America.

The private sector will have to do the lion’s share of the work. A good model is the architectural profession. The major associations in Canada, the U.S. and Mexico signed a landmark agreement in 2005 for international recognition of architectural qualifications. The agreement sets out common definitions and a path for mutual recognition among professional associations across North America. While it has taken time to work through detailed regulations, Mexico reported earlier this year that the first two Mexican-qualified architects are now also registered to practice in Canada and the U.S. A similarly structured process involving governments and the private sector could go a long way towards encouraging other trades and professions to adopt mutual recognition.

Recommendation: Set up a consultative committee on skills harmonization with a view to encouraging professional and trade associations to standardize definitions, education and training requirements, apprenticeship terms and certification processes. The work on standardization would lay the foundation for mutual recognition of trades and professions across North America.

35. Expedite cross-border movement of workers for training and skills development. It often makes sense for companies to bring employees from various parts of North America to a single location for training sessions. Such training benefits employers, employees and, more generally, overall economic competitiveness. Host communities receive a boost from the visitors. Yet many companies find it difficult to move their workers across borders for training programs. Onerous paperwork and long delays often mean that the application process lasts longer than the course itself. Suspicions that employees may be “working” while attending training courses can cause further time-consuming scrutiny at the border.

Recommendation: Canada, the U.S. and Mexico should create a simplified process for entry-permit applications for job training. The governments should guarantee a response to all such applications within five working days. Companies that host a training session should be able to apply for bulk entry authorization for employees from other NAFTA countries. Employees supported by their employers could also apply for expedited entry for a maximum of 14 days to attend accredited educational institutions and recognized professional conferences.

36. Update NAFTA’s list of professionals eligible for temporary entry. The list of professions eligible for temporary entry under chapter 16 of NAFTA is now 20 years old. The list reflects a pre-Internet economy and includes few skilled trades, making it less and less useful for companies seeking to move employees where and when they need them. The time has come for governments to review and update this important list.

Recommendation: The three governments should convene a meeting of NAFTA’s long-dormant temporary entry working group to discuss the future of the eligible professionals list. In preparation for the meeting, the authorities should commission a study on how the professions included in the list have evolved since it was compiled. Private sector representatives should be invited to attend the working group meeting. The group’s initial work plan should include a review of at least a dozen categories that require updating.

37. Enhance the NEXUS and Sentri programs into platforms for facilitating advanced trusted traveller initiatives. NEXUS and Sentri, the two main trusted traveller programs in North America, provide an excellent platform for facilitating the

movement of cross-border business travellers. However, the potential of these two programs is not being fully realized. They currently give frontline officers significant information about individuals arriving at a port of entry. Business travellers or their employers should be given the option to provide specific information concerning the purpose, destination, and legal foundation in advance of a trip, thereby lessening the need for lengthy questioning at the border. A legal opinion appended to a trusted traveller profile would be helpful in complex cases, such as travellers seeking to enter under NAFTA chapter 16 or providing after-sales service. Such additional data could also help with the proposed creation of a “trusted employer” program.

Recommendation: Enhance the NEXUS and Sentri platforms to provide not only information entered at the time of application, but also more extensive data covering past and future trips. This adjustment will require a new user interface and protocols on how information on profiles may be entered and changed. The enhanced platforms can be used for programs under which firms would certify trusted employees or individual suppliers. As with cargo movements, advance information on travellers means faster clearance at the border. Such enhancements would also minimize misunderstandings and miscommunication between travellers and border officers.

38. Experiment with specific, needs-based matching of jobs and skills. The movement of labour across borders is one of North America’s thorniest political issues. Despite a reticence in some quarters to consider formal frameworks, action is appropriate to help communities and sectors along our borders harmed by localized mismatches between labour supply and demand.

Take the recent example of two small towns in Montana and British Columbia – the former burdened by a large number of unemployed sawmill workers, the latter with a sawmill battling labour shortages. While the workers in Montana sat idle, the B.C. mill brought in workers from Asia to provide the skills it needed. Would it not have made more sense for Canada and the U.S. to help the B.C. mill hire the unemployed workers from Montana? Canadian workers would not have been displaced and more of the economic benefit would have stayed within North America.

To guard against abuse and ensure buy-in from communities on both sides of the border, the federal governments should start with a pilot project enabling major employers in border regions that face demonstrable labour shortages to hire qualified workers from the other country. The relevant local authorities on each side of the border would be required to apply jointly with the employer. All workers hired under the scheme would have to use a trusted traveller card as they cross the border to go to work, thus enabling the authorities to monitor movements across the border. The employer would need to provide regular reporting about the program and be subject to periodic compliance audits. In a case like that of the B.C. sawmill, the governments

could engage a trusted local or regional agency, such as the Pacific North West Economic Region, to facilitate oversight and evaluate progress.

This idea is not new. Under a “helmets to hardhats” initiative, former U.S. servicemen have been recruited for jobs in the Alberta oil sands. Lessons from this initiative, notably how to coordinate between different levels of government and different branches of the same government, could serve a border pilot project well. The scheme could also be adapted to mega-projects facing extreme labour shortages.

Recommendation: The federal governments should launch a pilot project that would enable local communities with major employers/projects/facilities facing demonstrable labour shortages to seek skilled workers across the border. The local governments and the employer would be required to apply jointly to the federal authorities for the necessary permits. The workers would be subject to local labour laws relating to health, safety, professional certifications and wages.

39. Develop a skills enhancement strategy to address shortages in the energy field. Energy has become an increasingly important engine of the North American economy over the past decade. Driven by new technology and production techniques, Canada and the U.S. have seen a surge in output that shows no sign of abating. This growth has brought many economic benefits, but also worsening skills shortages. These shortages could be further exacerbated by Mexico’s recent far-reaching energy reforms, which will open the sector to competition and spur production. There will be huge demand for skilled workers, especially those with knowledge of advanced production techniques such as ultra-deep water drilling and fracking. The three North American countries would benefit from collaborative policies to address this challenge. Key components could include:

- Each country should permit short stays of up to a week for workers with specialized oilfield skills, coming from the other two countries.
- Governments and industry associations should develop and promote common certification standards for specific energy-related trades.
- Canadian and U.S. technical colleges should develop exchange programs with their Mexican counterparts to help address Mexico’s acute skills shortages in the energy industry.

Recommendation: The three countries should adopt a comprehensive skills strategy for the energy sector to maximize the benefits from the North American energy revolution. Components would include ramping up the training of skilled workers and ensuring that they are available where their skills are needed.

North America in the world

The three North American countries can work together on numerous fronts to promote their common interests internationally. They have already started to coalesce around one another's candidates for top posts in international organizations. Canada supported the Mexican candidates for the leadership of the International Monetary Fund and the World Trade Organization. The three countries have promoted investment in North America together. Since the SARS outbreak in 2003, they have coordinated their response to pandemics. Their deeply integrated economies require close coordination to counter cyber-security threats. We foresee a time when the North American Aerospace Defence Command (NORAD) will be expanded to include Mexico. In short, there is much that Canada, the U.S. and Mexico can and should do together.

Goals:

- Promote shared North American economic interests.
- Coordinate closely to ensure North America's security.

Proposed actions:

40. Undertake regular North American trade and investment promotion initiatives. Canadian, Mexican and U.S. investment promotion agencies held their first joint "Invest in North America" day in London in October 2013. The initiative sought to market North America as an investment region rather than as three separate countries. The tripartite approach will be pursued again in Japan in November 2014 with a focus on real-estate investment. The three governments should build on these events to develop a more ambitious joint investment promotion strategy. They should also organize joint trade missions focused on regionally integrated sectors. These cooperative efforts could be both national and regional in scope and composition.

Recommendation: Collaborate in international investment promotion initiatives and trade missions that market North America as an integrated economic zone.

41. Work collaboratively to strengthen North America's southern perimeter. North America is not an island. The integrity of Mexico's southern border with Central America is important not only to the security of North America, but also to the region's economic competitiveness. Concerns about the movement of illegal migrants and contraband across this border have dampened political enthusiasm for facilitating trade and travel across Mexico's northern frontier with the U.S. This, in turn, impacts perceptions about what can be done on the U.S-Canada border. Improving the effectiveness of Mexico's southern border is thus not solely a Mexican challenge.

Mexico is already working vigorously on issues related to its border with Guatemala, most recently through the *Programa Frontera Sur*, announced in July 2014. Canada and the U.S. could help in enhancing information sharing practices and providing more robust technology for border monitoring and training assistance for police and border officers. In addition, the three countries should strengthen and coordinate development and governance programs with the “northern triangle” countries of Central America – Guatemala, Honduras, and El Salvador. Improving economic conditions in the main source countries for migrants from Central America is an essential first step to addressing the border challenge.

Recommendation: Canada and the U.S. should offer to collaborate with Mexico on issues related to strengthening Mexico’s southern border with Central America. They should make clear that they are seeking to provide what the Mexican government might find useful without impugning its sovereignty.

42. Coordinate development strategies in the Caribbean. Canada, the U.S. and Mexico have strong political, economic, and security interests in the Caribbean. Canada and the U.S. also have a long history of supportive development programs in the region. Yet the Caribbean continues to flounder economically and faces grave security challenges from transnational crime syndicates. Its economies lack scale and diversity, and the situation is unlikely to improve without coordinated external help. The energy sector would be a good place to start. Caribbean nations would benefit from investments in liquefied natural gas infrastructure, large renewable energy projects, and an electric grid connecting islands and mainland markets. This infrastructure would lower energy costs and improve the region’s competitiveness. It would also help counteract the region’s dependence on Venezuela’s PetroCaribe scheme.

Recommendation: Canada, the U.S. and Mexico should jointly devise a comprehensive strategy to strengthen Caribbean economies and reduce energy costs.

43. Strengthen North American cooperation on cyber-security. Cyber-security is a growing challenge for the public and private sectors in North America. Each of the three governments is already working intensively to combat cyber-security threats, but the intricate connections of infrastructure and commerce across the continent require them to step up trilateral coordination. Private-sector entities should also be working together to address common cyber threats.

Recommendation: The three countries, in conjunction with their private sectors, should develop a North American-wide cyber-security roadmap by September 2015 to enhance trilateral cooperation, information sharing and operational support.

44. Devise a coordinated North American response to pandemics. Pandemics can spread easily across borders. When they do, fear takes hold and economies can be disrupted. The three governments have already done good work in coordinating emergency response, containment and mutual support in the wake of SARS and H1N1. The 2012 North American Plan for Animal and Pandemic Influenza offers an important architectural framework for addressing present and future challenges in this area. We encourage the governments to put appropriate public health resources and information-sharing protocols in place to help contain pandemics.

Recommendation: Building on the good trilateral work to date, the governments should complete a gap analysis and set of recommendations to further strengthen trilateral coordination for addressing pandemics by December 2015.

Conclusion

The business of North America is business. Our jobs and prosperity – local, regional, national and continental – depend on a robust entrepreneurial culture. Innovations, investments, jobs and profits created by business make possible the financing of public goods such as education, health care, social security and national defence. They also fuel rising standards of living.

All three nations continue to pioneer innovations in financing. Some of these take the form of public-private partnerships, especially in the renovation of existing roads, bridges, ports and airports and in the construction of new infrastructure. These are the arteries that make possible the flow of trade and travellers within our continental perimeter.

Commercial rules of the road need to be grounded in contemporary economic realities. North America pioneered the digital economy that now powers global trade and investment. Yet the list of skilled workers who qualify for cross-border labour mobility dates from the pre-internet era.

As a global cradle of innovation, North America has thrived on the development and adoption of new technologies. We draw our citizens from around the world. Smart migration policies and high-quality education give us our edge.

We also are in the midst of an important energy transformation. Robust and responsible energy development can improve our manufacturing competitiveness and make North America a world-class centre of production. Tapping into diverse energy supplies, building modern and resilient energy infrastructure and sharpening our technological edge can improve energy security for our citizens while steadily reducing our environmental footprint.

Much of our innovative capacity derives from the fact that we are federations. Our states and provinces are incubators for innovative public policy. Innovative approaches can be tested locally and adapted nationally, eventually becoming continental standards. Of course, there will still be times when we need to act unilaterally or bilaterally to get the job done.

The “security trumps trade” argument is a false dichotomy. Through the practical application of big data, we can ensure that security and trade facilitation are mutually reinforcing rather than mutually exclusive.

Muddling along will no longer suffice. We need trilateral agreement on future directions, a clear commitment from the three leaders, and a central agency in each government with the responsibility to coordinate effective and efficient implementation. By pursuing a strategic plan of intelligent change and reform, our three nations can lead the world economy for years to come.