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**Freedom of Information Act Request Record Production from:**

**International Trade Administration of the US Department of Commerce concerning  
the “Security and Prosperity Partnership of North America” (SPP)**

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COUNCIL OF THE  
*Americas*

FINAL RECOMMENDATIONS FROM THE U.S. SECTION OF THE  
NORTH AMERICAN COMPETITIVENESS COUNCIL (NACC)

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STANDARDS AND REGULATORY COOPERATION

OVERVIEW

The Standards and Regulatory sub-group of the U.S. Section of the NACC is pleased to make the following preliminary recommendations for action by the SPP. These recommendations reflect the U.S. Section of the NACC's priority issue areas among those already identified by the SPP in the Prosperity Annex of June 2005. Over the next year, we look forward to developing more detailed action plans for these recommendations as well as identifying additional action items. The U.S. Section of the NACC standards and regulatory sub-group has broken down our recommendations along the lines of the SPP working groups.

One overarching recommendation is to examine the existing consultative fora such as the NAFTA Technical Working Groups to determine whether these groups can be energized to deliver concrete results on the regulatory issues highlighted below. We believe that engagement on these issues at the highest political levels will create the necessary impetus to resolve many of the technical and regulatory barriers that continue to fragment North American economies.

FINANCIAL SERVICES

FREE TRADE IN SECURITIES/CAPITAL MARKETS

Recommendations

- As a long-term objective, develop a system of mutual recognition among regulators and self-regulatory organizations in Canadian and U.S. exchanges. Work towards acceptance of equivalent standards, objectives, surveillance and enforcement.
- Continue to share market surveillance information among regulators. Law enforcement and others. This will allow for a shared commitment to investor protection, and will begin to eliminate the border as a hiding place for market manipulators.
- Encourage discussion of issues surrounding cross-border access to stock exchanges. Presently, Canadian exchanges cannot be accessed electronically from the U.S. unless they register in the U.S. as national exchanges in the same manner as domestic exchanges
  - Continue dialogue between SEC, Mexico's SHCP and Canadian authorities regarding ways to achieve bidirectional access to electronic trading screens.

## CAPACITY BUILDING IN MEXICO

### Recommendations

- Without duplicating existing mechanisms, expand financial services dialogues and regulatory cooperation forums among key U.S., Canadian and Mexican financial experts from the public/ private sectors to share best practices in the banking, securities and insurance sectors.
- Strengthen the Mexican private pension system through the creation of a consultation mechanism with key private pension experts from the three countries to identify priorities and achieve consensus on future actions. Produce an annual report on the status of private market development.
- Continue to evaluate current capacity building programs for bank, securities and insurance regulators and supervisors and determine need for new training areas. Encourage signature of an MOU to increase trilateral collaboration in the development of training programs for insurance regulators. Canada's financial regulator is already working with the Mexican insurance supervisor and the National Association of Insurance Commissioners (NAIC) is discussing with Mexico possible participation in NAIC education programs, including the International Program for Education and Regulatory Cooperation. There are opportunities to formalize/regulate some of these regulatory/technical assistance exchanges.

## CROSS BORDER INSURANCE SERVICES FOR TRUCKING AND AUTOS

### Recommendations

- As a long-term objective, continue working through the trilateral insurance working group to improve the availability and affordability of insurance coverage for carriers engaged in cross-border commerce in North America. Similarly, seek ways of exploring the establishment of cross-border personal auto insurance.

## MANUFACTURING

We recommend that the three countries establish a NAFTA Regulatory Cooperation and Standards Committee to survey the variety of standards and regulatory differences that impede trade and seek to make compatible differences or develop other mechanisms to lessen their impact on the competitiveness of North American industry.

### Recommendations

- Make compatible the list of products considered "hazardous substances." The lists contained in the U.S. Toxic Substance Control Act (TSCA) and the Canadian

Domestic Substances List (DSL) differ and prevent some U.S. products from being sold in Canada.

- Fully implement NAFTA Chapter Nine rules on the recognition of testing and certification bodies that perform conformity assessment to standards. U.S. testing and certification firms have not been able to obtain authorization to test and certify for the Mexican market despite provisions in NAFTA allowing this.
- Trade in regulated products between Mexico and the United States would also be facilitated through cooperative arrangements where appropriate and other more flexible, lower cost mechanisms for certifying conformance to health and safety requirements.
- Ensure consistent application of standards and regulatory requirements within each country. In Canada, for example, a U.S. exporter of industrial machinery has experienced differing certification requirements among Canadian provinces. Some provinces automatically certify his product as meeting electrical safety requirements without delay or additional costs while one province imposes a substantial testing fee and requires a longer processing time.

## FOOD AND AGRICULTURE

### ENHANCED COOPERATION ON FOOD STANDARDS

We support the creation of a food safety coordinating mechanism to cooperate in the design and development of common standards, share information on food safety and collaborate effectively on the development of national positions for international food safety settlement bodies.

At the same time, work needs to be undertaken to ensure that existing barriers are addressed. These include:

#### *Restrictions on fortification of foods*

Health Canada restricts the marketing of breakfast cereals and other products such as orange juice that are fortified with vitamins and minerals. New legislation is currently being developed in Canada to address this issue.

### Recommendations

- Close consultation in development of new regulation to allow sale of similarly fortified foods in all three NAFTA countries.

### *Classification on nutritional supplements*

In 2000, the Mexican Ministry of Health reclassified food supplements which contain certain herbal ingredients such as ginkgo biloba and Echinacea as herbal medicines instead of herbal remedies. According to Mexican law, these products may now only be sold through a fixed retail location by licensed persons and not through direct sale.

#### **Recommendations**

- The private sector requests consultation with the Mexican government on the classification of herbal medicines.

### **TECHNICAL REGULATIONS**

#### *Regulatory Referencing of Voluntary Standards*

In recent years, the U.S. Congress has responded to a growing need to strengthen OMB Circular A-119 and has passed several laws making it clear that federal agencies rely upon private voluntary standards whenever feasible.

Foremost among these laws is the **National Technology Transfer and Advancement Act (Public Law 104-113)**. Signed into law in early 1996, this landmark legislation contains the following key provisions pertaining to standards and conformity assessment:

- All Federal agencies and departments shall use technical standards that are developed or adopted by voluntary consensus standards bodies, using such technical standards as a means to carry out policy objectives or activities determined by the agencies and departments;
- Federal agencies and departments shall consult with voluntary, private sector, consensus standards bodies and shall, when such participation is in the public interest and is compatible with agency and departmental missions, authorities, priorities, and budget resources, participate with such bodies in the development of technical standards;
- In the U.S. if no appropriate private sector standard exists, U.S. regulators are encouraged to participate on private-sector standards committees as equal partners with industry to develop the appropriate private sector standards before regulating.
- U.S. regulators can develop regulations that reference these standards as mandatory requirements, but industry can update the standards in a timely fashion as required by the market and new technology.

- U.S. regulators who chose to develop their own "in-house" regulations must justify to Congress on an annual basis the reasons for using public funds to do so.

#### **Information on policies such as OMB Circular A-119 and the NTTAA:**

- Implementation of such policies has proven that the most effective mechanism of achieving compatible regulatory requirements across countries is to have governments implement policies such as the NTTAA which allow and encourage regulator referencing of private-sector standards to meet regulatory needs.
- U.S. regulators are already required by law to look to the private sector to use existing private-sector standards before regulating.
- Regulations which reference standards can often be more effective as they are kept up to date and relevant to the latest technology.
- Regulations which reference standards can achieve the same regulatory goals at a lower cost to government.
- Industry already works in multiple international forums to develop these private-sector standards which are referenced by the regulators of various countries.

#### **Recommendations**

- In each of the NAFTA countries, encourage consideration of and increase the awareness and visibility of policies such as OMB Circular A-119 and also The National Technology Transfer and Advancement Act (NTTAA 104-113).

#### *Restrictions on importation of nutritional supplements in Mexico*

- The Mexican Ministry of Health (MOH) places unusual restrictions on the importation of nutritional supplements into Mexico.
- The MOH requires a Manufacturing Sanitary License (MSL) which certifies that the Ministry has inspected U.S. facilities, yet they do not let any inspectors to travel outside of Mexico for the inspection.
  - Given this difficulty, many manufacturers are required to partner with a government-certified independent laboratory in Mexico who will act as importer of record. This leads to loss of proprietary information and additional expenses. The only alternative is to set up a subsidiary in Mexico.

#### Recommendations

- Engage in a dialogue with the Mexican Ministry of Health to allow for U.S. facilities to be inspected by Mexican inspectors or accept a third party certification body.

#### Container Size

Canada prescribes a set standard for container size for certain processed foods such as baby foods and soups that are inconsistent with market conditions and U.S. standards. There is no health or safety rationale for the container sizes, in fact, in the case of baby foods the container sizes may be inconsistent with actual serving sizes and mislead consumers.

#### Recommendations

- Amend Canadian container law to allow for U.S. packaged food product sizes.

#### Labeling Standards

Diverse standards on nutrition, allergen, and health claim regulations create unnecessary obstacles to trade. Particular attention needs to be paid to the development of mandatory nutrition labeling in Mexico in 2006 and 2007.

#### Recommendations

- Work towards common scientific approach for food labels among all three NAFTA partners.

#### CROSS-BORDER COMPATIBILITY ISSUES

##### *Restrictions on Imports of Fruits and Vegetables*

Canada prohibits imports of fresh or processed fruits and vegetables in packages exceeding certain standard packaging sizes unless the Government of Canada grants a ministerial easement or exemption.

#### Recommendations

- Work to eliminate import restrictions.

##### *Burdensome paperwork requirements and diverse food safety standards for food products impedes cross border transactions*

#### Recommendations

- Make compatible documentation and certification for cross border food trade.
- Make compatible regulatory criteria as it relates to animal health (e.g. BSE) and eliminate the need for additional export criteria among the NAFTA countries.

#### Health certificates

USDA's Food Safety Inspection Service has recently required that all pallets containing meat and poultry be stamped with a health certification number instead of using a placard for an entire pallet. This change has required companies to hand stamp health certificate numbers on each case prior to shipment, as the information is not generally available prior to packing. Companies estimate that the change will cost hundreds of thousands of dollars.

#### Recommendations

- Develop an alternate procedure, such as permitting placards on case shipments, to remove this costly and unnecessary burden.

#### TRANSPORTATION

##### RAIL TRANSPORTATION

Important process reforms are improving railroad system fluidity in the U.S. - Mexico border region through a new customs pre-filing system and documentation improvements. As a result, rail service has improved and exposure to illicit activities has been reduced. However, further process improvements under the umbrella of the Security and Prosperity Partnership (SPP) should be made. As part of the NACC strategy to create a secure and efficient border, the following railroad transportation process reforms are recommended for consideration.

##### *Waiver-based Mutual Recognition of Mechanical Inspections for International Trains*

Expansion of the U.S. Federal Railroad Administration's (FRA's) waiver program for mechanical inspections performed by FRA certified, private contractors at near-border rail yards in Mexico to avoid dual inspections by both Mexico and in the U.S. for cross border rail traffic would greatly improve cross-border security and efficiency.

The FRA requirement to inspect freight cars every 1,000 miles does not currently recognize inspections performed in Mexico. Therefore, a car inspected in Nuevo Laredo by certified personnel using FRA criteria must be re-inspected in Laredo. This process is duplicious, costly and contributes to congestion in the Laredo area.

#### Recommendations

- It is proposed that the FRA's existing waiver process be expanded to allow FRA certified, private contractor inspections to be carried out at near-border rail yards in Mexico using FRA criteria, to avoid dual inspections by both Mexico and the U.S. for international trains coming into the United States from Mexico.

## TRUCKING SECTOR

### *Fully Implementing NAFTA's Trucking Provisions for Access and Investment*

Mexico and the United States have taken steps to fully implement the trucking provisions as established under NAFTA. The U.S. has lifted the moratorium on access for Mexican motor carriers, and both Mexico and the U.S. have implemented the necessary requirements for cross-border investment in trucking operations. However, both the U.S. and Mexico have not finalized applications for access and/or investment. The U.S. has yet to finalize negotiations with Mexico to begin granting operating authority to Mexican motor carriers, though recent announcements have been made by the U.S. Department of Transportation about a "pilot" program to process Mexican motor carriers. In Mexico, the Secretaría de Comunicaciones y Transportes (SCT) has failed to provide operating authority and issue license plates to a U.S. motor carrier seeking to establish a Mexican trucking company for the purpose of moving international cargo, contravening the investment provisions of NAFTA.

### Recommendations

- We urge the U.S. government to move forward in fully implementing the access provisions of NAFTA without further delay. We urge the Mexican government to establish clear guidelines and the application process for U.S. motor carriers to engage in cross-border operations, and for investing in Mexican motor carriers and their operations as agreed to under NAFTA.

### *Truck Driver Hours of Service Rules Changes*

One of the most significant truck transportation issues facing Canada, Mexico, and the U.S. is the compatibility of safety regulations that govern the minimum rest periods and maximum driving and work periods for commercial truck drivers. Although these rules (known as Hours of Service (HOS) rules) were recently updated in the U.S., a Court challenge has created uncertainty over their future.

Canada has also updated their HOS rules. Compatibility and harmonization of these rules in all three countries will promote efficient and productive trade between nations while at the same time leveling the competitive playing field for commercial trucking companies.

### Recommendations

- The Land Transportation Standards Subcommittee/Transportation Consultative Group, established under NAFTA, should convene in the near future to develop a coordinated approach to work towards compatible Hours of Service requirements in all three countries for drivers operating throughout North America.

### *Load Securement*

Another important regulatory issue facing the trucking industry in all three countries is the compatibility and enforcement of the rules for securing cargo on trucks. Industry and government representatives from all three countries were involved in a lengthy research study on this safety issue in the 1990s, which resulted in new regulations in the U.S. and Canada. Unfortunately, the differing regulatory processes in the countries resulted in similar but different rules for the securing of numerous types of truck cargo. International commerce on the backs of trucks can be made more efficient, timely, and profitable if the rules themselves, and the enforcement of them, were consistent to the maximum extent possible.

### Recommendations

- Industry urges the continuation of ongoing dialogue to work for the development of a common, compatible load securement standard that is established in regulation and applied the equally throughout North America.

### *New Engine Emissions Standards*

A new U.S. Environmental Protection Agency (EPA) regulation for diesel trucks, which will be phased in beginning in 2007, requires dramatic reductions in emissions of nitrogen oxides (a precursor to ozone) and particulate matter – by over 90 percent from current levels – and will result in diesel engines having near-zero emissions when the regulation is fully implemented in 2010. All on-road heavy duty diesel engines produced will also require the use of ultra-low sulfur diesel fuel in order to meet the new emission standards and help alleviate maintenance and performance concerns. By June 2006, refiners will be required to produce diesel fuel containing less than 15 parts per million sulfur, a substantial reduction from the current maximum sulfur content level of 500 parts per million. The regulation requires refineries to "phase-in" their production of lower sulfur diesel fuel beginning at 80 percent in 2006 and ultimately achieving 100 percent in 2010. When fully implemented, this regulation is expected to reduce emissions of nitrogen oxides by 2.6 million tons each year, along with 110,000 tons of particulate matter annually.

With the full implementation of NAFTA's trucking provisions for access, these new technology trucks will conduct business in Mexico and Canada. While Canada has committed to adopt the same new engine emission and fuel standards as those of the United States, this is not yet the case with Mexico (although steps have been taken in this direction). It is, therefore, critical to address the widespread availability and quality of ultra-low sulfur diesel wherever new technology trucks may conduct business in order to optimize emission reduction benefits and operate within established manufacturer warranty parameters. Likewise, it is essential to take strides in harmonizing engine emission standards between countries to ensure the widespread availability of replacement parts wherever a truck may require service.

## Recommendations

- Develop a distribution system that ensures the availability of ultra-low-sulfur diesel throughout North America. This will facilitate motor carriers from all three countries to be in compliance as they operate across our mutual international borders.

### *Motor Carrier Equipment, Technology and Maintenance Standards*

Some technology standards have already experienced various levels of "harmonization" among Canada, Mexico and the United States, but efforts to improve harmonization are ongoing. For example, in the field of electronic commerce, the leading data communications standard, EDI, is split into two major competing standards, the European-oriented EDIFACT, which is dominant in Canada, and the American National Standards Institute's ANSI X12 standard, which is dominant in the United States and Mexico. One possible solution to harmonization is for all three countries to seek universal voluntary adoption of the new ebXML (Electronic BusinessXML) standard, which has been developed by groups from all three countries in North America along with input from Europe and other regions.

## Recommendations

- The Land Transport Standards Subcommittee should be reengaged to also develop common standards for equipment, technology and maintenance. Once the full implementation of NAFTA's trucking provision are in place, it should serve as a catalyst to energize the LTSS and the Transportation Consultative Group.

## BORDER SECURITY AND INFRASTRUCTURE

### OVERVIEW

Ensuring the efficient and secure movement of people and merchandise across the borders of North America is a key issue in maintaining and improving the economic competitiveness of the region.

The Border Security and Infrastructure working group of the U.S. Section of the NAAC embraces the concept of the U.S., Mexico and Canada working closely to establish strategies to improve the prosperity of North America, while also developing policies that foster and strengthen the security of the region as a whole, and is pleased to make the following preliminary recommendations for action that could be addressed through the SPR.

### BUSINESS RESUMPTION

Business has a multifaceted stake in a strong national defense and a homeland security policy that safeguards citizens while also protecting their mobility, their freedom and their way of life. If terrorism or the threat of it chokes off our ability to move people and goods in a global economy, we will pay a tremendous price in growth and prosperity.

### PANDEMIC CONTROL

Most experts agree that there is a growing and significant threat of a global pandemic, but that there is no way to predict either exactly when it might occur or the severity of the impact. As with any of the risks that we face in North America -- including natural disasters and the ongoing possibility of another terrorist attack -- it is imperative that all segments of society be prepared for such a threat.

In addition to the threat that a pandemic could pose to human health world-wide, few industries will be insulated from the economic effects resulting from absenteeism in the workplace or from the downstream effects stemming from supply-chain and travel disruption.

In order to safeguard against the threat of a pandemic and to mitigate the effects of a pandemic should one occur, in the U.S. President Bush has outlined a coordinated government strategy that includes the establishment of a new international partnership on Avian and Pandemic Influenza, the stockpiling of vaccines and antiviral medications, expansion of our early-warning systems here and abroad, and new initiatives for local and state level preparedness against the threat of a pandemic.

#### Recommendations

- It is important for business owners and leaders to be knowledgeable about the risks associated with the threat of an influenza pandemic and, in turn, to be adequately prepared for the possibility of a pandemic that would have significant social and economic costs. An initiative to educate business owners and leaders should be undertaken, drawing on activities already underway.
- Federal preemption of certain state regulations during a national emergency must be considered to ensure that responders can respond expeditiously and with the least bureaucratic burden.
- Additionally, during a national emergency government should consider allowing intrastate commercial drivers license holders to drive interstate when providing emergency services. It is also essential that throughout a pandemic all borders and major roads remain open to ensure access to critical supplies and to allow the unimpeded flow of domestic and international commerce necessary for our economic health.

### EMERGENCY MANAGEMENT COORDINATED RESPONSE AND INFRASTRUCTURE PROTECTION

#### Recommendations

- As 85% of the United States' critical infrastructure is owned or operated by the private sector, it is vital to our economic and national security that business is actively involved in the formulation of homeland security policies.
- One of the most important next steps to critical infrastructure protection is establishing a set of rules that provide legal protection for companies who conduct risk assessments and share information on vulnerabilities with the appropriate government entities. Without legal and regulatory protection, companies risk exposure to antitrust sanctions stemming from sharing information or to lawsuits from customers over the disclosure of the companies' vulnerability to intentional interference or incapacitation.

### INCIDENT RECOVERY PLAN

#### Recommendations

- Pre-incident planning with the private sector is essential at every level of government. Any recovery plan should address two-way communications and information sharing between government, industry, and the general public. Government should direct such cooperation and encourage implementation of effective public-private responses at the state and local level, and adapt federal planning to complement and facilitate that.

### IMPROVING CROSS-BORDER MOBILITY (GOODS/SERVICES/PEOPLE)

We continue to be concerned about congestion at U.S. ports of entry, which stands to be further exacerbated by increases in NAFTA trade volumes that have been projected and compounded by increased security measures in the post 9/11 environment. Development of physical and human resources at U.S. international land borders must keep pace with NAFTA trade growth. Congestion creates inefficiencies in the transportation of cargo and the movement of people among the North American trading partners, straining present-day human resources and facility capacities at U.S. land borders. Delays add to freight transportation costs and threaten to diminish NAFTA's true potential.

### US-CANADA BORDER CROSSING INFRASTRUCTURE

Ensuring adequate capacity at the U.S.-Canada border is a high priority for the North American auto industry. An estimated \$1.2 billion in trade crosses the U.S.-Canada border daily - over 40% at the five international land-border crossings in the Detroit-Windsor Region. Of this trade approximately \$234 million is automotive related. Growing trade volumes, combined with aging infrastructure are straining border crossing capabilities. If no improvements are made, experts believe that the U.S. and Canada could realize losses of up to 80,000 U.S. jobs and 70,000 Canadian jobs, combined with annual production losses of \$13.4 billion. A Bi-National Partnership studying this issue has concluded that the area's infrastructure capacity could be exceeded as early as 2015. U.S. and Canadian governments should also invest in infrastructure and capacity improvements at other high-volume crossings, including at Blaine, WA and Buffalo, NY.

#### Recommendations

- Given the importance of the region to the national economies of both countries, the age and capacity levels of existing infrastructure, and vulnerability of existing infrastructures to unforeseen circumstances, the NACC should make it a priority to support and implement strategies to ensure adequate and reliable bridge crossing capacity in the Greater Detroit region that contributes to the competitiveness and supply chain security of NAFTA trade. Specifically, the NACC should support the work of the Bi-National Partnership process.
- It is essential that the infrastructure at high-volume border crossings, including Detroit-Windsor, be suitable for the transport of dangerous goods so that the express industry can meet the needs of shippers of dangerous goods which require express delivery (dangerous goods comprise a wide range of materials essential for medical, defense, research, industrial and other applications so there



are wide social costs to the inability to efficiently move dangerous goods across the border in this area).

- We also recommend that the governments evaluate moving customs processes further inland, where appropriate, to take the pressure off the infrastructure at the border. Enable customs processing prior to the trailer/FAST shipments arriving at the border (similar to pre-clearance of passengers at Canadian Airports before their arrival in the US).
- Explore Short Sea shipping opportunities in North America in order to minimize border bottlenecks, infrastructure impact and environment issues. Example: Opportunity to establish pilot program by linking the Eastern most port with rest of the ports on the east coast of North America and Western most port with rest of the ports in the West coast of North America. Another area of pilot program could be the Great Lakes between U.S. and Canada.

## US-MEXICO BORDER CROSSING INFRASTRUCTURE

### Recommendations

- We recommend that the governments evaluate moving customs processes further inland, where appropriate, to take the pressure off the infrastructure at the border.
- We recommend investment in infrastructure improvements that increase capacity at high-volume border crossings.
- We also recommend that the governments increase customs operating hours as well as those of other inspection agencies (for instance, cross-designation by FDA to CBP on regular shipments 24/7) and that they harmonize U.S. and Mexican Customs operating hours.
- Support bi-lateral initiatives underway to examine bottlenecks and infrastructure/capacity improvement needs and coordination.

### SMART BORDER ACCORD / BORDER PARTNERSHIP

## PERIMETER CLEARANCE STRATEGY

Under smarter border initiatives, beside a risk management approach, compatible electronic and communication capability and secure documents for travel to ID low-risk and create an expedited seamless crossing process for them is to undertake a Perimeter Clearance Strategy for goods and people that interdicts inadmissible people and non low-risk goods at their foreign point of origin before they reach North American soil. Since 9/11 most requirements and costs have been exerted at the internal U.S. borders to the benefit of non North American manufacturers to the point where it is severely negatively affecting North American companies global competitiveness. Perimeter

Clearance would initially be Canada and US (Mexico would be a later participant when other current problems have been addressed).

## AUTOMATED COMMERCIAL ENVIRONMENTAL/INTERNATIONAL TRADE DATA SYSTEM (ACE/ITDS)

Under the Trade Act of 2002, electronic pre-notification of manifest-level cargo information is required. The Multi-Modal Manifest, an electronic freight manifest to be used by all transportation modes as part of the ACE/ITDS system, satisfy this requirement. Industry, government, and other participants have worked more than four years to define data elements and connectivity for a manifest system that will serve the needs of all four transportation modes – ocean, air, rail, and truck. Because the motor carrier industry is the only transport mode with no currently existing electronic manifest system, the truck portion of the M/M/M began testing at one northern border port in January of 2005.

We support the implementation of the ITDS portion of ACE/ITDS, which will serve as a front-end to ACE and a single-window entry system for collection and dissemination of trade information to multiple government agencies. We are pleased with the progress and design of the ACE/ITDS system, which should eliminate reporting redundancies and streamline the collection and reporting of information to government agencies that clear cargo, drivers, and equipment into the U.S. This system should create more seamless and harmonized border crossings for the goods, equipment, and drivers for the three NAFTA partners. In order to defend our nation from potential future terrorist attacks and at the same time process the legitimate commercial goods so important to our nation's economy, we must provide our border enforcement agencies the necessary tools and resources to fulfill their duties and responsibilities.

The ACE/ITDS also provides the U.S. a starting point to work with Canada and Mexico in developing a comprehensive North American customs clearance system, or, at a minimum, a way to harmonize customs systems. U.S. Customs and Border Protection is currently working on harmonizing data systems with its Canadian and Mexican counterparts by utilizing the government-trade process of the already-existing ACE/ITDS project. The goal of establishing a shared system that allows, through a single transaction, for cargo to be screened and released for all three North American countries would greatly help reduce import/export transaction costs. We encourage such initiatives and requests that such efforts involve members of the trade community, including the trucking industry.

### Recommendations

- The Executive branch of all three countries should compel appropriate agencies to participate and cooperate in international trade data systems.
- Adequate resourcing should be directed to these federal agencies to absorb the costs of connecting to ACE.

## FAST/C-TPAT FOR CROSS BORDER COMMERCE

The Free and Secure Trade (FAST) program, which incorporates the Customs Trade Partnership Against Terrorism (CTPAT), is a bilateral initiative between the U.S. and Canada, and the U.S. and Mexico, designed to facilitate trade and ensure security and safety for both countries by harmonizing commercial processes for clearance of commercial shipments at the border. This will be done by using common risk-management principles, supply chain security measures, industry partnerships, and advanced technology to improve screening, targeting and clearance of cross-border commercial freight.

The FAST system offers a harmonized clearance process for known low-risk shipments in which C-TPAT motor carriers utilizing FAST lane processing, carrying qualifying goods bound for U.S. C-TPAT approved importers, with a FAST-approved driver receive FAST processing of goods based on advanced electronic transmission of cargo information.

The success of the FAST/C-TPAT program is based upon voluntary enrollment of known entities in the supply chain and advance electronic information about cargo. But because all entities in the supply chain must be C-TPAT, many LTL carriers are unable to realize the full benefits of this program, because most LTL carriers will be unable to predict or guarantee that all shipments in a trailer will qualify.

Industry must continue to work with North American customs authorities on FAST/C-TPAT to develop further benefits for motor carriers that successfully complete the C-TPAT validation process. Increasing future benefits that provide improved and faster processing for such motor carriers and their cargo will likely result in an increase number of voluntary participants from the trucking industry.

### Recommendations

- Provide adequate capacity FAST lanes at high-volume border crossings.
- Develop programs designed to assist companies in achieving certification under the C-TPAT program, and provide CBP with adequate resources to conduct validations of supply chain security practices of participants.
- Provide more robust benefits to C-TPAT participants, as recommended to CBP by the Commercial Operations Advisory Committee (COAC), to provide participating companies with a return-on-investment. Harmonization of C-TPAT and PIP programs will help increase Small and Medium Enterprises participation.
- Refrain from regulating C-TPAT. A one-size-fits-all approach to supply chain security simply will significantly not work. The program needs to retain the

- flexibility to accommodate differences in supply chains of individual companies of varying size and operation.
- Modify C-TPAT to accommodate needs of Less-than-Truck Load and Express Carriers who have shipments in their vehicles from multiple customers for which they cannot predict/ guarantee qualification for the program. C-TPAT helps C-TPAT shipments, but lacks carry over benefits to other traffic through the same shipper.
  - Work with industry to incorporate, within the existing C-TPAT program, the "GreenLane" concept of providing companies with tiered benefits allowing for quicker clearance of low-risk shipments and eliminate re-inspections.

### SINGLE INTEGRATED TRUSTED TRAVELER SYSTEM / WESTERN HEMISPHERE TRAVEL INITIATIVE

As the US-VISIT entry/exit program begins to expand at land border ports of entry, it is essential that DHS continue to coordinate and communicate with the trade community. The US-VISIT process must carefully consider how the system will interact with other credentialing programs, including NEXUS and Registered Traveler, as well FAST, TWIC, and HazMat Materials Endorsements. The Department of Homeland Security (DHS) should facilitate the coordination of each of these separate credentialing programs. The goal of should be the creation of a single, interoperable credential to be used for all programs. Applicants should be required to apply only once and undergo a single security threat assessment or background investigation. Fees placed on applicants should be kept to a minimum. DHS should provide applicants flexible options with respect to enrollment locations, minimizing inconvenience and costs associated with enrollment.

### INTEGRATED CREDENTIALING PROGRAMS

Develop Integrated Credentialing Programs to identify low risk people before they get to the border.

The US-VISIT program is relevant to travelers across North America. As the US-VISIT entry/exit program begins to expand at land border ports of entry, it is essential that DHS continue to coordinate and communicate with the trade community and traveling public. The US-VISIT process must carefully consider how the system will interact with other credentialing programs, including NEXUS and Registered Traveler, as well FAST, TWIC, and HazMat Materials Endorsements. The Department of Homeland Security (DHS) should facilitate the coordination of each of these separate credentialing programs. The goal should be the creation of a single, interoperable credential to be used for all programs. Applicants should be required to apply only once and undergo a

single security threat assessment or background investigation. Fees placed on applicants should be kept to a minimum. DHS should provide applicants flexible options with respect to enrollment locations, minimizing inconvenience and costs associated with enrollment.

#### Recommendations

- CBP Headquarters increase knowledge and training of Customs and Border Protection Officers to ensure understanding of the importance of facilitating entry for those with no security issues working in the U.S.
- Resolve issues with attorneys or representatives from companies prior to the applicant's return to the border.

#### WESTERN HEMISPHERE TRAVEL INITIATIVE

The Western Hemisphere Travel Initiative (WHTI) should also be implemented with serious consideration given to how it will affect trade, tourism and travel. Current law requires the Department of Homeland Security and the Department of State to promulgate regulations requiring travelers – including American citizens – entering or re-entering the U.S. from Canada, Mexico, or the Caribbean to present a document or combination of documents denoting both identity and citizenship by January 1, 2008. Since most U.S. citizens do not own a passport and they are relatively expensive, it is imperative that the departments seek workable alternatives, preferably using existing documentation. A non-discretionary state issued document, such as an enhanced driver's license or identity card developed in coordination with the federal government, is an alternative to consider which will meet the statutory requirements. However, current law also gives DHS and the Department of State discretion to develop low-cost and easily obtainable federally issued documents for travelers, allowing for safe travel without over-burdening border communities, international trade, and the travel and tourism industry. The impending deadline of WHTI could pose problems with implementation – there will be no time for pilot programs, and there is currently a lack of awareness among the public. A delay in implementation should be enacted legislatively.

#### Recommendations

- Implement alternative, genuinely low-cost, and easily attainable documents to the passport.
- Waive or reduce fees for children.
- Run an outreach campaign in regions that will be the most affected by WHTI, partnering with the private sector, including:
  - Written notifications at or near public facilities, including border crossings, schools, libraries, Amtrak stations, and United States Post Offices near the border.

- Consent to post such notifications on commercial property, such as offices of state departments of motor vehicles, gas stations, supermarkets, convenience stores, hotels, and travel agencies;
- An analytical study to measure the success of the public promotion plan
- Execute an economic analysis on WHTI implementation.
- Extend the implementation deadline of WHTI for land border crossings.
- Implement a pilot program in states with the highest traffic volume to test the processes required for the new restrictions.
- The Secretaries of State and DHS should work with appropriate Mexican and Canadian authorities to certify their IDs, including driver's licenses, meet security requirements and include a citizenship verification mechanism. Such licenses may be used for travel to the U.S.
- The Secretary of DHS should set up a limited short-term pass program or otherwise facilitate people who come to the border without documents.
- A reasonable grace period should be established at border crossings, during which time people lacking documents are educated about their options and allowed to pass.
- Appropriations should be authorized to implement new technology infrastructures and support to states for implementation of the enhanced drivers license.

## SUPPLY CHAIN MANAGEMENT / TRADE FACILITATION / CUSTOMS REFORM

### OVERVIEW

Initiatives aimed at facilitating trade in goods will enhance trade opportunities between the three countries.

The Supply Chain Management / Trade Facilitation / Customs Reform working group of the U.S. Section of the NACC is pleased to make the following preliminary recommendations for action that could be addressed through the SPP.

### CUSTOMS SIMPLIFICATION AND REFORM

Simplification of customs processing practices and improved logistics is estimated to be able to provide savings of up to 5% on the cost of a product. The U.S. Section of the NACC has identified a number of areas where systems and processes could be reformed and improved, resulting in significant costs savings.

#### Recommendations

- Improve trilateral cooperation on border processing and security to eliminate duplicative and overlapping requirements to better facilitate low-risk trade and travelers.
- Encourage the development of a common North American system for transmitting both import and export information.
- Improve coordination of the three governments' customs certification programs, including streamlining government-industry communications.
- Increase reliance on pre-clearance procedures and explore moving border processing further away from the border to decrease congestion.
- Allow periodic customs filings rather than the filing of paperwork on an item-by-item basis.
- Implement a single consistent in-bond transit systems and processes (e.g., goods that may originate in New York that move in bond to Canada and back to Michigan).
- Implement paperless customs clearance processes. We support reporting all government required advance information and other clearance information electronically and urge an expedited timeframe to achieve full implementation of both paperless customs clearance and advance information process. This is intended to apply to all types of shipments, not just low risk. We perceive that very substantial economic benefits will be realized by shippers, consumers, carriers and other affected interests.

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- Harmonize and raise thresholds on low value shipments (proposed for US\$2,500) entering any of the three North American countries, thereby allowing for more expedited flow of legitimate commerce and less complex entry across national borders. It will enable governments to still collect the same duties and taxes.
- Increase gift remission and de minimis limits in U.S., Canada and Mexico, thereby helping Customs assign scarce resources to high risk areas of inspection.
- Modify IRS and SSN requirement regulations for ultimate consignees to make it easier for U.S. buyers and Canadian and Mexican exporters to sell across the borders. Example: Explore the possibility of providing limited personal information about U.S. importers through an encrypted website (co-ownership by DHS and Customs) to the shippers in Canada and Mexico. U.S. Importers are hesitant to provide personal information to exporters in Canada and Mexico due to fear of identity theft and other frauds. Currently it delays shipments at borders and also acts as an export deterrent for both Canadian and Mexican shippers who ultimately have to look for customers in other continents for their sale.
- Modify Manufacturing Identification (MID) regulation by enforcing process at the origin point/country prior to the goods arriving at the port, thereby freeing up ports and Customs time. Reinstate the old rules that if manufacturer could not be determined then it is acceptable to use shippers' information. Most of these goods that are in question are not restricted goods. E.g. Textile, and do not pose any security threat.

### REDUCE RULES OF ORIGIN COSTS

Targeted changes can reduce administrative burdens as well as provide producers with more flexibility in sourcing components for use in the production of their goods. This will make it easier for exporters to qualify for NAFTA duty-free rates and should lead to enhanced trilateral trade.

#### Recommendations

- Move to a multi-year NAFTA certification process or consider implementing automatic renewal, as annual certification process do not provide much relief and keeping track of expiration dates and products is just as burdensome.
- Eliminate requirement for NAFTA certificate on shipments and instead require a field on commercial invoice to acknowledge NAFTA A qualification, similar to what is allowed for the Canadian LVS (Low Value Shipment) system.

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## EXPAND AIR TRANSPORTATION RELATIONS

The U.S. and Canada signed an "Open Skies" bilateral aviation agreement in November 2005 which is expected to become effective shortly. This agreement is one of more than seventy Open Skies agreements negotiated by the U.S., and provides the most open and liberal opportunities for the carriers of both the U.S. and Canada to serve the needs of the traveling and shipping public. This is a market opening and economic growth development that must be appreciated by Mexico. Currently, one of the greatest restrictions in the U.S. - Mexico aviation regime is that no opportunities whatsoever are provided for the cargo carriers of each country to operate beyond the other country to points in third countries. For example, an express or all cargo carrier designated on the route can operate as much as it likes between New York and Mexico City, but cannot operate with traffic rights beyond Mexico City to points in Central America. Instead, as a practical matter they are forced to operate separate flights from the U.S. direct to their destinations in Central America.

This restriction deprives the U.S., Canada and Mexico, their businesses, and their consumers, the ability to maximize international trade opportunities. Further, Mexican airports are unable to realize their full potential as trans-shipment points and logistics hubs. Ultimately, the current restrictions result in inefficient transportation options and higher costs for shippers out of all three countries. Since the trade opportunities are reciprocal, Mexican air carriers also will continue to be denied the opportunity to operate beyond the U.S. to third country markets -- a right we would gladly see them accorded, so long as we are offered reciprocal opportunities in markets beyond Mexico.

While restrictive bilateral aviation agreements were commonplace in 1960 when the original U.S. - Mexico agreement was negotiated (there have been Protocols from time to time amending the agreement most recently in 2005, but the basic bilateral we are operating under today dates back to August 15, 1960), they are anachronistic in the current era of globalization, and completely out of step with the Open Skies agreements which have been the growing standard in global aviation policy for the past decade.

### Recommendations

- Resume negotiations between the Mexican and U.S. governments to amend their bilateral air transport services agreement to provide liberalized opportunities for the air cargo carriers of both countries, including the opportunity to operate Fifth Freedom services.

## ENSURE COMPATIBILITY OF GAMMA RAY INSPECTIONS

More efficient use of non-intrusive (NII) systems, such as the border gamma ray machines to increase bridge through-put at rail border crossings, while simultaneously improving the quality of inspections, would also increase cross-border security and efficiency.

Both Mexico and the U.S. currently operate their own gamma ray machine on each end of the International bridge. Thus, there are two machines and their systems are not interfaced.

### Recommendations

- Upward harmonization of north and south bound gamma ray scanning speed - both countries scan at different speeds.
- Increase gamma ray scanning speed to the maximum recommended by federal authorities in consultation with the equipment manufacturer.
- A plan should be explored that would allow a more efficient and fluid use of NII systems, such as the *gamma ray machines* at the Nuevo Laredo/Laredo rail crossing. The governments should analyze the creation of a "secure corridor" between the three near-border rail yards (*KCSM's Sánchez yard in Mexico, the UP's yard at Port Laredo and Tex-Mex's Laredo Yard in the U.S.*). To support this effort, the NACC will send a letter to CBP and Mexican authorities specifying the problem and cost to the railroads and requesting that a solution be tested to alter current processes to meet all parties' needs.

## ENERGY INTEGRATION

### OVERVIEW

Creating a sustainable and integrated energy economy for North America is in the vital interest of all three countries. Reliable, affordable, environmentally responsible energy is critical to the prosperity and security of our peoples.

The Energy Integration working group of the U.S. Section of the NACC encourages all three governments to create a policy environment that will promote the sustainable supply and use of energy in North America and is pleased to make the following preliminary recommendations for action that could be addressed through the SPP.

### FUEL STANDARDIZATION

Fuel and air quality specifications and regulations between countries are sometimes out of alignment and can therefore impede the efficiency of fleet transport traffic between North American countries. Although efforts have been made to ensure fuel fungibility between Canada and the United States at their border, the issue is particularly acute between the United States and Mexico. There is an opportunity to align specification and regulations in a way that will improve the fungibility of gasoline and diesel at the borders.

#### Recommendations

- The three North American governments should direct the North American Air Working Group (NAAWG), with support from the North American Energy Working Group (NAEWG), to identify the appropriate agencies within each government with jurisdictional authority over issues regarding fuel specification/regulation and air quality standards associated with motor fuels. The NAAWG/NAEWG should explore opportunities to identify specific fuel requirements – including but not necessarily limited to vapor pressure, sulfur content and specialized fuel requirements (reformulated gasoline) – in each country.
- Following completion of these requirements, the team should work with industry associations to explore ways to improve compatibility at borders, and specifications that are out of alignment in ways that impede efficiency of transportation across the borders.
- Upon completion of this effort, an analysis of the relevant legislation and regulations should be developed (with governmental bodies interested in the impact of mitigating economic and environmental fuel-related inefficiencies, and the private sector).

- As outlined in the “Standards and Regulatory Cooperation” Summary, develop a distribution system that ensures the availability of ultra-low-sulfur diesel throughout North America. This will facilitate motor carriers from all three countries to be in compliance as they operate across our mutual international borders.

### ENHANCE NATURAL GAS COLLABORATION

As industrial, commercial, and residential demands for clean burning natural gas increase in all three countries – and throughout the world – opportunity exists to identify areas for improve efficiencies between the three North American governments surrounding the importing of natural gas from the global market as liquefied natural gas (LNG) becomes an increasingly important component of North American gas supply.

#### Recommendations

- The three North American governments should direct the North American Energy Working Group (NAEWG) to identify the appropriate agencies within each North American government with jurisdictional authority to site or contribute to the siting of liquefied natural gas (LNG) terminals.
- The NAEWG or the NACC should recommend the creation of a trilateral task force to investigate the siting and permitting requirements for LNG terminals in the three North American countries.
- The task force should work with the appropriate NAEWG group to define ways to facilitate and streamline the regulatory approval process in order to enhance the efficiency of the importation of LNG into North America.
- Upon completion of this effort, an approach should be developed and presented to the North American governments to facilitate implementation.

### ENHANCE ELECTRICITY COLLABORATION

Reliability of electricity supply through the interconnected grid system is a priority issue for our countries.

Increased use of renewable energy (including electricity generation) can help all three countries improve energy security and the environment.

## Recommendations Reliability

- Encourage enhanced integration of the Mexican grid with that of the United States.
  - Encourage the full participation/membership of U.S., Canadian and Mexican electric power market participants in regional reliability councils, and the adherence to a single set of enforceable reliability standards for North America.
- Energy Efficiency*
- Help foster more energy-efficient buildings;
  - Promote the development and deployment of more energy-efficient electric appliances, consumer electronics and other electric technologies;
  - Accelerate the development and use of “smart” or advanced, electric meters.

### ENHANCE NUCLEAR COLLABORATION

The three countries will benefit from the sharing of information and best practices on many issues associated with the application of nuclear technology and the safe production and use of nuclear power.

## Recommendations

- Continue ongoing discussions already taking place under the NAEWG to establish a cooperative work plan and agree on a set of initiatives.

## INNOVATION

### OVERVIEW

The capacity to innovate will be a critical determinant of a nation’s ability to compete and succeed in the 21<sup>st</sup> century global marketplace. Innovation today is not a linear process but emerges from a complex ecosystem of relationships, networks and interactions that span political, scientific and economic boundaries. Integral to the success of the innovation process is the active engagement of all stakeholders: the private sector, academia, federal, state and local governments and, increasingly, global partners.

Regions are “the building blocks of innovation capacity, because they offer proximity and can provide specialized assets that foster differentiation” and thus, competitive advantage.<sup>1</sup> As North America consolidates into one trading block, clear policies that provide incentives for innovation become fundamental to the future of the three North American economies. The recommendations listed below are grouped in three categories and are aimed at ensuring that North America’s innovation capacity is robust and adequate to meet the challenges of the 21<sup>st</sup> century.

Of course, to achieve these results, certain enabling conditions for innovation and competitiveness must exist and be fostered, among these:

- Transparency, rule of law, and efficient and effective enforcement of contracts;
- Respect for the creation and protection of intellectual property;
- Efficient and effective regulatory systems;
- Public and private investment in education, health, innovation and research and development;
- Market based on competition and customer choice;
- Open markets and free trade; and
- Dynamic interaction among academia, business, and government, particularly at the local level, but enabled by the macro enabling conditions listed above.

## Talent

As stated in *Innovate America*, at either the national [or tri-national level], “human creativity and human capital drive innovation and economic growth.”<sup>2</sup> All citizens of North America need skills to be successful and these skills are best acquired by

<sup>1</sup> *Regional Innovation, National Prosperity*, Council on Competitiveness 2006.

<sup>2</sup> *Innovate America*, Council on Competitiveness, 2004.

“experiencing innovation first-hand, building the confidence that underpins future success.” As Benjamin Franklin said, “you tell me, I forget; you teach me, I remember; you involve me, I learn.” This strategy involves building the base of scientists and engineers among the U.S., Mexico and Canada, supporting the next generation of innovators and empowering workers to succeed in the global economy.

#### Recommendations

- Promote the expansion of IT networks among universities in the U.S., Mexico and Canada to increase tri-national academic collaboration, and to enhance applied research capabilities in different fields.<sup>3</sup>
- Creation of a North American “Visiting Professor” program so college professors and researchers have the opportunity to conduct fellowships and exchanges with U.S., Mexican and Canadian universities, facilitating cross-border networking and joint-research opportunities.
- The creation of an annual trilateral summit, sponsored by the three governments in partnership with the private sector that converges academic and business leaders from all three countries and creates opportunities for transnational research and development.
- Tri-lateral Innovation Partnerships would be created to bridge the gap between the long-term discovery process and commercialization. These new partnerships would involve academia, business and government and would be tailored to specific economic clusters that span the three countries.<sup>4</sup>

#### Investment

Investment in frontier research has always been the bedrock of innovation. As noted in *Innovate America*, investments made in the 1940s in the field of quantum mechanics resulted in the creation of the semiconductor and IT revolutions, engineers working on time-sharing techniques could never have anticipated the future implications for the internet and e-commerce. There is a wealth of talent and resources in North America which if tapped and leveraged, has the potential to stimulate enormous gains in productivity, economic growth and standard of living. While public investment plays a critical role, more needs to be done to harness the resources of the private sector to support innovation, entrepreneurialism and the next generation of innovators. The following recommendations are to this effect:

#### Recommendations

- Create a North America virtual financing network that would help to decrease the divide between venture capital assistance and innovators. This organization

should be funded by the three countries and managed by an independent business-oriented committee.

- Promote a tri-national policy that would establish tax-exemptions for private-sector R&D - including universities and private research centers.
- Unified patent legislation that would allow a shared database between North American patent agencies and promote a shared database between these three institutions.<sup>5</sup>
- Promote a network of communications across the three countries of highly-skilled individuals with diverse backgrounds in the innovation fields. Relationships among entrepreneurs, venture capitalists, researchers, educators and representatives of regional governments and councils are the ones that foster innovations at the regional and national levels. Working together, as in the case of San Diego Connect, will allow North America to stay on the edge of the innovation curve.

#### Regional Innovation

As the Council on Competitiveness’ extensive research in innovation has discovered, national policies and national investment choices have much to do with the growth and capacity of an economy. But according to the Council’s *Clusters of Innovation* report co-authored with Dr. Michael Porter of Harvard University, “the real locus of innovation is at the regional level. The nation’s ability to produce high-value products and services that support high wage jobs depends on the creation and strengthening of these regional hubs.”<sup>6</sup> As the examples of San Diego, Montreal, Research Triangle Park, and Guadalajara demonstrate, close ties between companies and local universities and community colleges help to refine research agenda, train specialized talent, and enable faster deployment of new knowledge that has tremendous benefits for the regional community and, in the aggregate, national productivity, growth, and prosperity.

In 2005, Merck and the Council partnered in a study that examined the capacity for U.S.-Mexico innovative capacity in the life sciences in the report, *Catalyzing Cross-Border Innovation: The Mexican Life Sciences Initiative*. Research demonstrated that “there is significant interest from U.S. partners to engage in cross-border activities with Mexico. Based on existing partnerships and programs, there is already a strong foundation on which collaborations can continue to grow and develop.”<sup>7</sup> These networks and interests are as advanced, if not more, with the U.S. and Canada. “Border states have already established close ties with their neighboring communities...and, beyond the border states there is interest from institutions cross the country to either build on the existing

<sup>3</sup> Adapted from *Catalyzing Cross-Border Innovation: The Mexico Life Sciences Initiative*, Council on Competitiveness, 2005.

<sup>4</sup> Adapted from *Innovate America*

<sup>5</sup> Adapted from *Catalyzing Cross-Border Innovation: The Mexico Life Sciences Initiative*, Council on Competitiveness, 2005.

<sup>6</sup> *Clusters of Innovation*, Council on Competitiveness, 2001.

<sup>7</sup> *Catalyzing Cross-Border Innovation: The Mexico Life Sciences Initiative*, Council on Competitiveness 2005.



partnerships or engage new partners on both sides of the border.”<sup>8</sup> To this end, we propose catalyzing clusters of innovation both within each country, virtually, and along border communities.

#### Recommendations

- Cluster organizations in each of the countries could convene a high-level conference or series of workshops to showcase best-in-practice clusters including cross-border clusters (i.e. San Diego/Baja California, Vancouver, Research Triangle Park)
- A formal, tri-lateral network organization should be established that would serve to link emerging and existing clusters in each country with one another. This tri-national organization can have a sector-specific focus or simply serve as a relationship facilitator across sectors.
- The three governments should support tri-national policies that encourage and invest in the discovery, development and delivery of innovative products and services. This includes research exchanges between firms, academic institutions and federal research centers.

## EXTERNAL DIMENSION

### OVERVIEW

The NACC agenda must include an external trade dimension because:

- We in the NAFTA region believe in a world of truly free trade and free-market forces;
- Many countries employ policies and practices to promote local industries and investment that can distort markets and put NAFTA companies at a disadvantage
- We often confront competition from foreign countries that is heavily subsidized and benefits from significant market protection;
- We need to ensure that North America’s competitiveness is not undercut by unfair trade practices and other distortions in the marketplace;
- At the same time, we need to assess the impacts of our own trade policies and practices on the competitiveness of North American industries;
- “A North American Strategy to Address Trade and Market-Distorting Challenges” is critical to a full understanding and addressing of the NAFTA region’s productivity and competitiveness challenges.

### APPROACH TO THE PRIORITY ISSUES

To this end, and to the extent that this external “basket” affects many of our other NACC priorities, NAFTA governments need to take a broad/multi-disciplinary approach to the priority issues under consideration in this basket. This approach should recognize that:

1. Our objectives are to ensure a strong, globally competitive North American economy and continued improvement in North American standards of living.
2. Key to enhancing prosperity, productivity and competitiveness are investments in human and physical capital as well as investments in R&D and innovation.
3. Also important are securing reliable and cost-competitive energy; access to the best technologies and cost-competitive materials and components, removing regulatory inefficiencies and working to ensure the smooth movement of goods and services across the NAFTA region (addressed in other parts of the proposed NACC agenda).

\* Ibid.

4. North American industry and governments will achieve progress in furthering NACC goals in this and other issue baskets only on the basis of U.S. and NAFTA-wide consensus.

With these factors in mind, the external trade basket offers significant near-term opportunities to:

- Cement further the NAFTA relationship;
- Search for additional common ground on trade policy; and
- Build upon the cooperative work on trade already in play within North America -- e.g., the close consultation among NAFTA governments on the South Korea FTA negotiations that are proceeding simultaneously in all three North American countries.

#### SUPPORT TO ONGOING TRADE POLICY EFFORTS

The main goal of this external trade basket is to provide additional cross-border and high-level industry support to the ongoing trade policy efforts of NAFTA governments to address foreign government import barriers, trade-distorting subsidies and interventions in raw material markets.

#### Recommendations

- A joint statement by NAFTA governments and industry that market forces drive productivity and competitiveness enhancements and that well functioning, distortion-free markets are a fundamental underpinning of further productivity and competitiveness gains.
- An NACC message to NAFTA governments that, in the aftermath of the collapse of the WTO Doha Development Round negotiations, it is important to continue efforts to address trade and market-distorting foreign government subsidies, import barriers and interventions in raw material markets.
- Exploration of a common NAFTA-wide approach to addressing foreign government trade and market-distorting policies, including agreement to enhance NAFTA governments' consultations on trade negotiations where appropriate
- Exploration of best practices for trade policies to promote competitiveness.