

The Case for a North American Standards and Regulatory Area

By Alexander Moens

THE FRASER
INSTITUTE

Canada-U.S. FTA and NAFTA

- History of reciprocity or free trade
- Twenty-year record of FTA (NAFTA merchandise trade \$900 billion in 2007)
- Current inadequacy of FTA
 - no Common External Tariff
 - limited labour mobility
 - managed vs free trade
 - product standards and regulatory divergences
 - Border strictures

North American Sclerosis

- Eurosclerosis of the 1970s
- Economic vs Political goals
 - Canadian leeringness to engage US
 - American local interests overrule national interest
- What we need: NASRA
- What we currently have: SPP

Security and Prosperity Partnership

- 2005 Waco Summit Goal: create synergy between trade (prosperity) and border (security) issues
- Catalyst was “security tax” on NAFTA trade from uncertainty and security measures following 9-11
- Modest and pragmatic goals: trilateral technocrat discussions led by ministers and annual summit

Development of SPP

- Framework for executive bi-lateral and tri-lateral negotiations (not treaty negotiation)
- Nineteen working groups (10 security, 9 trade)
- Does not limit sovereign national action
- 2006: North American Competitiveness Council (NACC)

Political Challenges to the SPP

- SPP object of myths and conspiracy theories
 - In Canada
 - » U.S. could encroach on Canadian sovereignty and water
 - » Back door to “lowering” Canadian regulations to U.S. standards (race to the bottom)
 - In U.S.
 - » Fears of North American Union similar to E.U.
 - » NAFTA superhighway
 - » Job losses to Mexico
 - While there is no hidden agenda, SPP brand is tarnished, political momentum seems lost.

NACC 2007 Report Priorities and Montebello Summit Goals

- Regulatory Cooperation Framework
- Critical infrastructure protection
- Pandemic emergency management
- Border pre-clearance projects
- Liberalizing NAFTA ROO administration
- Intellectual property rights, piracy and counterfeit issues

Results from the SPP (sample from 18 agreements)

- Liberalized rules of origin for certain products. Expected to cover \$70 billion in trade by 2008
- Mutual recognition on security regulations for 'dangerous goods' container traffic
- Mutual recognition of testing and certification of telecommunications equipment
- Open skies in air cargo transportation
- Harmonized energy performance regulations for certain household appliances

Benefits from the SPP Process

- Opportunity to influence agenda in complex and competitive U.S. political arena
- Business advisory process
- Three must talk, two can walk
- Annual leadership summits can overcome political obstacles and set new goals

Conclusion on SPP

- Helpful in finding greater efficiencies in trade and common security
- Warrants stronger support from Canada's public and private sectors
- Broken brand, lack of impetus, not enough to protect Canadian interests

Canada's Interests at Risk

- 2006: 51% of total exports to U.S. and 77% of total imports from U.S. done **by trucks** crossing border
- 2000-2007: no value gain in cross-border, intra-firm manufacturing production process
- Automotive trade: 20 regulatory differences and border costs add between \$800-\$1300 in cost per ave. vehicle vs 2.5% U.S. tariff on S. Korean car (20K car =\$500)
- 2007: Cdn exports to US grew 3% (largely energy), Chinese exports grew 12%.
- Integrated Cattle and beef market lost \$5-7 billion during BSE crisis due to no harmonization of standards and regulations.

Canada's Interests at Stake I I

- Expedited border programs, like C-TPAT and FAST showing modest results
- ROO are fiscally irrelevant, most Ca-US tariffs are very close.
- Old infrastructure and customs: 100 Canadian and 400 U.S. statutes at the border.
- New “blanket rules”: USDA Bio-inspection Fee (\$80 million cost estimate per year), Proposed Importer Security Filing and Additional Carrier Requirements (10 Plus 2 Rule).

Cost of Border I

- 2002 KPMG study of 165 cross-border carriers found 20% increase in processing time between mid-2001 and mid-2002
- 2003 study by Michigan Department of Transportation found current border management costs Canadian and U.S. companies ~ US \$10 billion (2.7% of US trade and 4% of truck trade). 60% of this cost absorbed by Canadian companies

Cost of Border II

- 2005 study by Transport Canada found that post 9-11 American security measures cost Canadian trucking industry mid-range estimate of \$290 million per year, which is 4% of industry's total revenue of \$8 billion.
- 2005 study of smaller exporters in Ontario and Western Quebec found 2.7% of their gross revenue on cross-border security regulations
- 2007 Conference Board study found that new security measures equivalent to 2% of cross border trucking revenues.
- Ave total cost of border: 2-3% of trade volume.
- Government security investment post 9-11: \$10 billion by 2007.

Risk to Canadian Capital and Investment

- New Europe: low taxes and Single Market
- USA: low dollar and real estate, high productivity
- Asia: low wages

Recommendation: NASRA

- Move from SPP to a comprehensive deal, creating NASRA, but not political union
- Product standards and regulations as well as security measures on goods and people in one agreement

Product Standards and Regulatory Agreement

- CFIB estimates total regulatory cost at 2.6% of Canadian GDP. Because over 50% of Canada's GDP is based on Ca-US trade, regulatory harmonization would bring at minimal 1.3% GDP increase.
- On Economic, social, and administrative regulations require all jurisdictions to justify divergent regulations. Make divergence the exception.

Vision for a Needs-Based Border I

- A gradual move toward a common external tariff by adopting the lowest tariff between the two countries starting with industrial products that will lead to elimination of ROO
- Gradual liberalization of temporary border mobility for citizens of both countries
- Regulatory compliance reporting to be done at shipping points, which can be done by business and e-monitored by government
- Dedicated border crossings for all goods that comply on regulatory and security requirements

Vision for a New Border II

- Mutually recognized *security criteria* for clearance for all persons entering and leaving the two countries
- A single, bi-national method of recording and security biometric and other secure electronic data, such as radio-frequency ID chips to speed border crossings
- Enhanced Integrated Border Enforcement Teams and closer collaboration between intelligence and law enforcement on crime, smuggling, and terrorist border threats
- Final layer of risk-based inspection and supervision to be done at the border

Final Slide: Political Capital

- Harper-McCain would offer best opportunity in 20 years
- Obama Administration will not likely change Status Quo on NAFTA, but Canada needs to help it climb down from campaign promises.
- Large 'fair trade' Democratic majorities expected in House and Senate
- Canada must seek 2 plus 3 formula