



Government  
of Canada

Gouvernement  
du Canada

## **GOVERNMENT RESPONSE TO THE REPORT OF THE STANDING COMMITTEE ON FOREIGN AFFAIRS AND INTERNATIONAL TRADE**

**Partners in North America:**

**Advancing Canada's Relations with the United States and Mexico**



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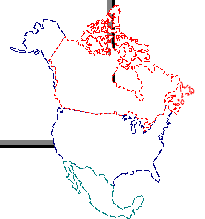
## **INTRODUCTION**

The Government thanks the members of the Standing Committee for their work leading to the comprehensive December 2002 report *Partners in North America: Advancing Canada's Relations with the United States and Mexico*. As we approach the tenth anniversary of the implementation of the North American Free Trade Agreement (NAFTA), the Report is timely in highlighting the opportunities and challenges for Canada posed by ever-increasing interdependence within the North American space.

The Report underlines that Canada's economic growth, prosperity and physical security are tied, more than ever, to the future of the continent. It is in our nation's vital interests to develop and promote the vibrant relationships which are contained within North America: Canada-United States (US), Canada-Mexico, and Canada-US-Mexico. At stake is Canada's future economic growth and prosperity, the physical safety and well being of our citizens, and the state of our shared environment.

The Report describes how managing relations with our North American Partners is pursued both on bilateral and trilateral bases. Our bilateral relationships with the US and Mexico have proven enormously successful, and continue to present the clearest opportunities to advance Canadian interests, while our trilateral efforts complement progress on the bilateral front. In this vein, the Government's strategy in North America is based on three pillars:

- ***Advancing Canadian Interests with the United States***  
The US is the most dynamic economy in the world and represents Canada's largest market and largest investor. It is the source of much innovation and technology transfer for the Canadian economy. At the same time, by virtue of geography, Canada's physical and environmental security are intertwined with that of the United States.
- ***Strengthening Canada's Political and Economic Links with Mexico***  
Through the NAFTA, Mexico has emerged as Canada's fourth largest export market and as a key partner in the hemisphere. Canada-Mexico linkages have experienced an impressive expansion in political, economic, social and cultural terms over the last decade, and the Government is committed to working with Mexico to build upon this solid relationship.
- ***Promoting the Development of a Broader Agenda of Trilateral Cooperation***  
The success of NAFTA for all three countries has built firm underpinnings for trilateral cooperation in areas of interest to all Canadians and involving different levels of government.



Under these pillars fall a vast array of Government initiatives which aim to further Canada's interests in virtually all policy areas, including trade, agriculture, innovation, defence and security, public safety, environment, education, labour, governance, cultural relations, information and communications technologies, energy, and transportation. Some initiatives are well known to the public, such as the ambitious Canada-US Smart Border Action Plan; others tend to operate 'out of the public spotlight', like the Program for North American Mobility in Higher Education. Their implementation requires input and participation from a diverse range of actors, including provincial, territorial and municipal governments, the private sector, non-governmental organizations and civil society.

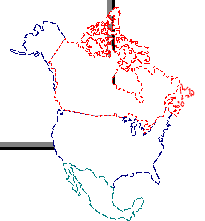
The Government of Canada recognizes the importance of public reflection on Canada's place in an increasingly interdependent global society. Globalization continues to change the way Canadians interact with the world – the North American dimension is one of the largest pieces of the puzzle. The Standing Committee's Report reaffirms that we can and must exercise sovereignty in taking important decisions about our country's future, and is an important contribution to the ongoing discussion on Canada's role and relations in North America.

### **Recommendation 1**

*The Government of Canada should explicitly make Canada's relations with its North American partners an overall policy priority. In that regard, and particularly in terms of defining the North American dimension of Canadian foreign policy, the Government should elaborate a coherent public strategy for advancing Canadian interests and values in the context of North America, including Mexico, beginning with its comprehensive response to the recommendations in this report.*

The Government agrees that relations with our North American Partners should be a top policy priority for Canada. The Government's overall strategy on North America has been, and continues to be, to work bilaterally with the United States and Mexico and to complement these separate, proactive agendas through the exploration of possible trilateral initiatives in areas of mutual interest.

On a number of occasions over the last three years, the Government has underscored the importance it attaches to Canada's North American relationships. In 2000, the Government identified North American Linkages as a priority area for research in partnership with the academic community, and created a North America Bureau in the Department of Foreign Affairs and International Trade (DFAIT) to better coordinate Canada's relations with the US and Mexico. Other departments have also created North America and Canada-US units. DFAIT's 2003 *Strategic Planning and Priorities*



*Framework* lists Canada-US and Canada-Mexico relations as among top Departmental priorities over the next three years. The 2002 *Speech from the Throne* emphasized that, working together, Canadians must secure our place in North America and in the world as a mature country, confident in who we are and where we are headed. The nation-wide *Dialogue on Foreign Policy*, launched by the Minister of Foreign Affairs in January 2003, is engaging Canadians on Canada's foreign policy directions, including those with respect to the North American space.

## **CANADA'S STRATEGY FOR NORTH AMERICA**

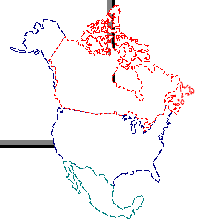
Implementing Canada's strategy requires the input and participation of a wide range of Canadian stakeholders, including provincial, territorial and municipal governments, the private sector, non-governmental organizations, and civil society. The Government remains committed to engaging all Canadians towards the following:

### **I      *ADVANCING CANADIAN INTERESTS WITH THE UNITED STATES***

***Increasing trade and investment flows with our largest trading partner.*** The Government is helping Canadian business to break into the US market, in particular focussing on women, young entrepreneurs and Aboriginal exporters. Since 1984, the New Exporters to Border States program has helped 14,400 companies in this regard. Over the past two years, Team Canada Atlantic missions to New York, Atlanta and Boston have generated business for Canadian companies, and the November 2001 Team Canada West Mission to Dallas and Los Angeles, led by the Prime Minister, provincial and territorial leaders signalled a new inter-governmental partnership in export and investment promotion. In close cooperation with provincial agencies, Investment Partnership Canada is working to retain and increase existing US investment in Canada and to attract new capital and new technologies. Under our agenda for Smart Regulation, the Government is currently considering ways in which to broaden and deepen regulatory cooperation with the US to further reduce hurdles for Canadian businesses.

***Defending Canada's market access.*** In cooperation with industry stakeholders, and the provinces and territories, the Government is working to resolve existing bilateral trade disputes, including softwood lumber and wheat, through NAFTA and World Trade Organization (WTO) dispute settlement mechanisms, and by influencing key decision-makers through targeted advocacy initiatives.

***Building a secure and efficient Canada-US border.*** Canada and the US are working closely towards the successful implementation of the December 2001 Smart Border 30-Point Action Plan, and have intensified cooperation among our immigration, customs, transportation, and law enforcement agencies. In cooperation with industry stakeholders,

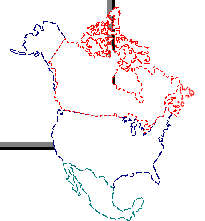


the Free and Secure Trade (FAST) initiative facilitates the efficient flow of low-risk, pre-approved goods. NEXUS allows Canadian and US customs and immigration authorities to concentrate on high risk travellers while allowing pre-approved frequent travellers simplified border crossings. Integrated Border Enforcement Teams (IBETS) made up of police, immigrations and customs officials are working to combat cross-border organized crime and track terrorist threats. A Canada-US Critical Infrastructure Protection Steering Committee has been established to consider and oversee cross-border activities related to energy, telecommunications, transportation, agriculture and food, and defence. In December 2002, Canada and the US also agreed to a bilateral program of cooperation on biosecurity matters.

***Promoting Canada's security through defence cooperation.*** Established in 1940, the Permanent Joint Board on Defence (PJBD) is a key bilateral forum which provides for critical senior military and diplomatic contact. A strong pillar of the relationship, the North American Aerospace Defence Command (NORAD) is a bi-national military command established in 1958 to monitor and defend North American airspace. In 2001, NORAD was renewed for a further 5 years. In December 2002, Canada and the US announced the creation of bi-national Planning Group, co-located with NORAD, that will enhance our ability to respond to primarily maritime- as well as land-based attacks and threats by terrorists or others, and will facilitate bi-national military support to civilian authorities in either country if necessary in the event of a disaster or other major emergency.

***Protecting our shared environment.*** *The Boundary Waters Treaty* of 1909 established the International Joint Commission which continues to assist Canada and the US in jointly managing and protecting our shared water resources as well as finding solutions to environmental problems. Canada and the US announced the development of a new border air quality strategy on January 6, 2003 which will create new cooperative pilot projects and build upon the 1991 *Canada-US Air Quality Agreement*. In 2001, Canada and the US created a Working Group on Climate Change Cooperation, through which we are intensifying cooperation on mitigating the impact of green house gas emissions, on science, measurement and research in several key sectors such as energy, transportation, agriculture and land use.

***Projecting greater awareness of Canada.*** In the 2002 *Speech from the Throne*, the Government stated it would “increase its consular presence to expand fair and secure trade and commerce, and to brand Canada in the United States.” *Budget 2003* provides funding over 5 years to bolster Canada's ability to actively engage at local and regional levels across the US. Academic exchanges continue to promote a better US understanding of Canada. The bi-national Fulbright Program provides grants for individuals to study/lecture in the other country, and the Association for Canadian Studies



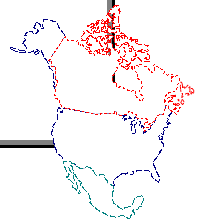
in the United States (ACSUS) is a multi-disciplinary association of scholars, professionals, and institutions dedicated to improving the understanding of Canada in the United States.

## ***II STRENGTHENING CANADA'S POLITICAL AND ECONOMIC LINKS WITH MEXICO***

***Promoting mutual economic growth and prosperity.*** A 1998 Team Canada mission led by the Prime Minister to Mexico City resulted in the highest number of business deals ever signed on a Team Canada mission at that time. In 2001, over 15 trade missions went to Mexico, and 20 additional ones went in 2002. In 2000, Export Development Canada (EDC) opened an office in Mexico City, co-located in the Canadian Embassy, and in 2002 expanded its services to Monterrey. In 2001, the Minister of Agriculture and Agri-Food and the Minister of Natural Resources each led business missions to Mexico. More than 60 Canadian business and government representatives participated in the 2002 Canada Trade Mission to Mexico led by the Minister for International Trade. Through Canada's Seasonal Agricultural Workers Program, 10,739 temporary Mexican workers came to Canada in 2002; Mexico supplies over 50% of total recruitment of Canada's foreign temporary farm workers.

***Expanding cooperation on governance issues in support of Mexico's strong commitment to democracy, human rights and good governance.*** Since the election of President Fox, senior Canadian officials have exchanged experiences with Mexican counterparts on important cross-cutting themes such as government coordination, federalism, strategic planning, and budget planning. With assistance from the Treasury Board of Canada Secretariat (TBS), the Mexican government recently passed legislation creating an Access to Information Law. With the Mexican Ministry of Labour, Canada has an ongoing cooperative program which, *inter alia*, seeks to address occupational health and safety administration. Independent institutions including our respective Human Rights Commissions, and Elections Canada and the Mexican Federal Electoral Institute also have strong relationships. Canada and Mexico recently signed a Memorandum of Understanding (MOU) on e-government to assist Mexican efforts to promote transparency. Recent visits of the Prime Minister and the Deputy Prime Minister to Mexico reaffirmed our commitment to expand cooperation in this important area.

***Strengthening mutual knowledge and understanding of each other's identity and values.*** The Government continues to support cultural and academic exchanges between our countries, such as the 2002 Canada-Mexico cultural consultations in Mexico City, and the 2002 visit of a Mexican Ministry of Education team to Canada to examine Canadian best practices in the education field. Projects between Canadian and Mexican universities help modernize education through the development of content and delivery



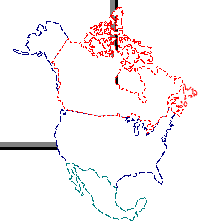
by distance education facilities. Through the Canada-Mexico reciprocal scholarship program, each government awards 15 annual post-graduate scholarships for study in the other country, and the Canada-Mexico “Bank of Missions” agreement supports the exchange of distinguished writers and artists. The Canadian Embassy in Mexico supports active Canadian Studies centres and delivers a dynamic public diplomacy program to promote Canadian values and culture.

***Building a bilateral foreign policy and security partnership based on issues of mutual interest.*** The Government has been working closely with Mexico to develop a more strategic partnership on global security issues, for example, by cooperating in multilateral fora including the Organization of American States (OAS) and United Nations (UN). Canada and Mexico, working with the Pearson Peacekeeping Centre and the UN Department for Peacekeeping Operations, collaborated on a very successful peacekeeping seminar in Mexico City in 2002. In 1998, Canada and Mexico signed an MOU on Cooperation in Combatting Narcotics Trafficking and Preventing Drug Abuse. A February 2003 MOU expanded Canada-Mexico cooperation in combatting money laundering and organized crime.

### ***III PROMOTING THE DEVELOPMENT OF A BROADER AGENDA OF TRILATERAL COOPERATION***

***Utilizing NAFTA’s trilateral mechanisms to their full potential.*** Under the NAFTA and its parallel agreements, the North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labour Cooperation (NAALC), firm underpinnings for a constructive trilateral relationship have developed. The NAFTA Commission, under the direction of Trade Ministers, oversees more than 30 working groups and committees which implement various articles of the Agreement. Environment Ministers head the Commission for Environmental Cooperation (CEC), the activities of which include: facilitating regional implementation of global agreements such as the Stockholm Convention on Persistent Organic Pollutants; biodiversity actions such as developing a North American Bird Conservation Initiative; and developing a cooperative agenda to address children’s health and the environment. The Commission for Labour Cooperation, headed by Labour ministers who meet annually, promotes effective enforcement of labour laws through annual programs of cooperative activities, consultations and publications on issues such as labour legislation, occupational health and safety, and gender equity. Cooperative activities are normally tripartite (i.e. government, employer and labour).

***Supporting trilateral exchanges outside the NAFTA.*** The North American Forest Commission has provided a policy and technical forum for Canada, the US and Mexico to address issues including fire management, forest products, insects and diseases, and





atmospheric change. The peso crisis of the mid-1990s prompted the three Finance Ministers and heads of Central Banks to meet annually to discuss North American fiscal and monetary issues. Through the Tri-National Agricultural Accord, federal and provincial/state agriculture officials and industry stakeholders from all three countries meet regularly to improve understanding and strengthen collaboration among agriculture sectors. In 2001, the North American Energy Working Group (NAEWG) was established as a technical-level forum to foster communication and coordinate efforts in support of efficient North American energy markets. The Program for North American Mobility in Higher Education, administered jointly by the Governments of Canada, Mexico, and the US, promotes a student-centred North American dimension to education and training.

***Encouraging a better understanding of the North American space.*** In their first trilateral meeting in Quebec City in April 2001, the three North American leaders called for wide public discourse and for increased research on the future of North America. Through the Policy Research Initiative (PRI), launched by the Clerk of the Privy Council to increase the capacity of the Government to identify, address and understand longer-term policy issues facing the country, North American Linkages has been identified as a key priority area for study. The PRI brings together policy researchers from 30 Government departments, other governments and academia, and continues to actively investigate possible new sectors for trilateral cooperation, where it is in the Canadian interest, and to encourage the academic community to continue its research on, and participation in, the trilateral dynamic. Recent PRI projects include the 2002 forum *Integrating North America*, organized jointly with Canada's Public Policy Forum, the US-based Brookings Institution and Inter-American Dialogue, and several Mexican partners, including the Instituto Autonomo Tecnologico de Mexico (ITAM).

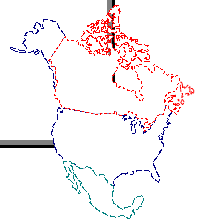
### **Recommendation 2**

*The Government should address Canada's diminished international policy capabilities in the next and future budgets, ensuring that sufficient resources are provided to allow the Department of Foreign Affairs and International Trade to provide leadership in developing and implementing a strong, credible, strategic framework for Canada's relations with its North American partners.*

***and***

### **Recommendation 33**

*The Government of Canada should increase both the number of DFAIT personnel resident in Washington and the number of Canadian diplomatic consulates in strategic locations elsewhere in the United States. It should also again increase the advocacy*



*funds available to DFAIT, and consult with industry groups and others in the design of targeted and coordinated information campaigns.*

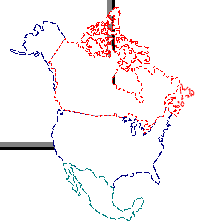
The Government has consistently maintained a solid capability both at home and in the field to implement initiatives aimed at advancing Canadian interests in the North American context, and is currently undertaking an exercise which will strengthen these activities. DFAIT's 2003 *Strategic Planning and Priorities Framework*, which will inform the Department's activities and budget allocations over the next three years, lists Canada-US and Canada-Mexico relations to be among our top priorities.

*Budget 2003* provides funding over 5 years to bolster Canada's ability to actively engage at local and regional levels across the United States. This includes the creation of new Consulates General and satellite offices that will focus on strategic issues and deliver targeted advocacy to promote Canadian interests, as well as up to 20 Canadian honorary Consuls in cities where we do not have offices. DFAIT, Industry Canada, and Agriculture and Agri-food Canada, are working in partnership on this initiative and have committed to reallocate resources. Marking a new and innovative approach to expanding international markets for small- and medium-sized cultural entrepreneurs, Canadian Heritage has recently funded the posting of Cultural Trade Development Officers to the Consulates General in Los Angeles and New York. The Office of Critical Infrastructure Protection and Emergency Preparedness (OCIPEP) will be deploying a Counsellor to the Canadian Embassy in Washington to liaise with counterpart US departments and agencies. The Royal Canadian Mounted Police (RCMP) has also increased its representation in the United States to better enhance cross-border public safety cooperation.

In response to increasing interest in Mexico, the Government is augmenting its staff at the Canadian Embassy in Mexico City. This summer, a new position to promote Canadian agriculture interests will be staffed by Agriculture and Agri-food Canada. In fall 2002, EDC co-located an office within the Canadian Consulate General in Monterrey. Independently, the Canadian Tourism Commission has expanded its office in Mexico City in recognition of the growing number of Mexican tourists to Canada (143,000 in 2002).

### **Recommendation 3**

*The Government should also ensure that there is coherence and coordination among all federal activities in which significant North American relationships are involved. To that end, consideration could be given to creating a special Cabinet Committee on North American Relations. Such a high-level committee could be co-chaired by the Deputy Prime Minister and the Minister of Foreign Affairs and could include other ministers*



*with important responsibilities that relate to North American issues.*

The Government takes note of the suggestion to consider the creation of a special Cabinet Committee on North American Relations, and is continuing to examine all options towards promoting greater strategic direction for Canada's North American agenda. Coherence and coordination among all federal activities is maintained through the existing Cabinet system where all major policy initiatives are reviewed by the Cabinet Committee for Economic Union or the Cabinet Committee for Social Union prior to Cabinet review and approval. The creation of any new Cabinet Committees is the prerogative of the Prime Minister.

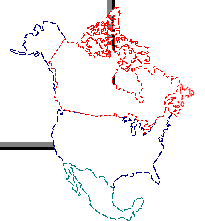
A flexible Cabinet Committee system and federal public service is essential. This was most recently demonstrated in response to the post-September 11 environment with the creation of the *ad hoc* Cabinet Committee on Public Security and Anti-Terrorism (PSAT) and the Canadian Borders Task Force in the Privy Council Office (PCO). In 2000, DFAIT was reorganized to create a North America Bureau to assist the Government in addressing continental policy. DFAIT's Assistant Deputy Minister, Americas, convenes regular meetings of senior officials responsible for Canada-US border management issues. In January 2003, DFAIT created a new position, Director General for Interdepartmental Partnerships, responsible for, *inter alia*, outreach to partner departments working on international, including North American, issues. Work is ongoing within the Government to improve coordination of our international activities. The Government is also working in partnership with the provinces and territories to better coordinate the non-federal dimensions of North American relations, as is detailed in response to Recommendation 5.

#### **Recommendation 4**

*In order to encourage further public engagement focussed on Canadian objectives in North America, the Government should consider convening national and/or regional roundtables on North American relations following the public release of an initial policy statement. Such a consensus-building process should be carried on as warranted by evolving circumstances.*

The Government recognizes that public consultation is vital to ensuring that Canadian policies are truly representative of national values and interests. Consultations to date reveal that Canadians accept that we live in an increasingly interconnected world, and that they favour increased economic ties with the United States and Mexico provided that the benefits are distributed widely among our societies and that Canadian values are protected.

The 2002 *Speech from the Throne* reaffirmed the Government's commitment to engage



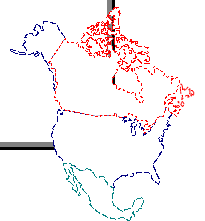
Canadians in a discussion about Canada's role in the world, and to set out before the end of the mandate "a long-term direction on international and defence policy that reflects Canadian values and interests". On January 22, 2003, the Minister of Foreign Affairs launched a nation-wide *Dialogue on Foreign Policy*, which solicits comments from Canadians on a discussion paper that highlights the challenges and opportunities of the 21st century and provides examples of recent Canadian foreign policy initiatives. In terms of North American relations, the paper asks Canadians "How should Canada take advantage of its location in North America to increase prosperity while promoting our distinctive identity?" Over the past months, the Minister has convened town hall meetings across Canada, including in Manitoba, Newfoundland, Nova Scotia, Prince Edward Island, Quebec, and Ontario, to discuss with Canadians their views on Canada's foreign policy. The Minister has undertaken to report back to Canadians on the response generated by the *Dialogue on Foreign Policy* in June.

In the spirit of the Government's commitment of engaging citizens, the Government will continue to encourage and support the ongoing public debate about Canada's relations with its North American Partners. For example, throughout 2003, the Government will be involved in a series of activities such as seminars, roundtables, multi-stakeholder consultations, and other events, to commemorate the tenth anniversary of the NAFTA. One exercise will focus on the environmental effects of the NAFTA and will aim to increase public awareness of the North American Commission for Environmental Cooperation. Similar activities are also being planned in the 2003-2004 NAALC program. Each of these events will include participation from different sectors of society as well as opportunities for public input.

### **Recommendation 5**

*Given the increasing involvement of non-federal actors in many aspects of North American relations, the Government should consider how best to take into account the interests of other levels of government – on a cooperative basis and through an established process of consultations with provinces, territories, and municipalities – within an evolving Canadian strategic policy framework for advancing these relations.*

The Government is firmly committed to working strategically with the provinces, territories and municipalities towards advancing Canada's interests in North America. The Government already enjoys a close working relationship with the provinces and territories through a variety of established mechanisms and is currently seeking ways to build upon this important strategic partnership.

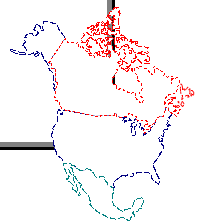


Given the magnitude of the bilateral relationship, the Government recognizes the particular importance of federal-provincial-territorial (FPT) coordination on Canada-US affairs. Since 2000, the Canadian Embassy has hosted annual meetings with provincial and territorial representatives to discuss key issues on the Canada-US agenda and to provide 'the view from Washington'. Over the past two years, the Government has maintained close contact with the provinces and territories on Canada-US security-related issues and developments related to the Smart Border Action Plan. FPT briefings were held in Ottawa on December 1, 2001 and January 17, 2002, with the exchanges updated in an August 14, 2002 teleconference, and a further FPT briefing on March 13, 2003. The Government also invited provincial and territorial representatives to attend relevant sessions of the annual meeting of Canada's US and Mexico Heads of Mission held in December 2002. In late February 2003, the Government began a series of consultations in provincial and territorial capitals to explore further means of enhancing the FPT partnership on Canada-US issues.

DFAIT is also working with provincial, territorial and municipal players to enhance Canada's advocacy efforts in the United States. DFAIT supports the participation of the provinces and territories in a number of sub-national institutions, such as the New England Governors/Eastern Canadian Premiers Conference, the Council of Great Lakes Governors, the Council of State Governments, meetings of the Western Governors' Association and Western Premiers, and the National Governors' Association. In January 2003, a delegation from the Federation of Canadian Municipalities addressed the US Conference of Mayors in Washington on the disruption caused in their communities by the softwood lumber trade dispute. Their presence contributed greatly to the Americans' understanding of the implications of this bilateral trade irritant. Provincial and territorial governments, through their own advocacy, enjoy a significant presence in Mexico. In addition to promoting specific trade and cultural interests, these partners play a useful role in furthering Canada-Mexico governance cooperation, particularly on issues such as decentralization.

In the area of trade and investment policy, the Federal-Provincial-Territorial Committee on Trade (C-Trade) is an officials-level forum which meets at least quarterly to exchange information, share perspectives and develop positions on a range of international trade policy issues, including negotiations. In addition, Canadian Ministers responsible for trade meet at least once a year, as do their deputies. The Government regularly shares key policy documents with the provinces and territories. Almost on a weekly basis, conference calls are also organized to provide timely reporting after key negotiation sessions, to discuss trade policy issues and strategies, as well as to solicit input from our provincial and territorial partners.

Finally, the Government also encourages provincial and territorial governments to



participate in the decision-making and implementation processes of the NAFTA side agreements on the environment and labour. Alberta, Quebec and Manitoba have signed the Canadian Intergovernmental Agreement regarding the NAAEC, which provides mechanisms through which provincial participation can be achieved. Decision-making on issues related to the NAAEC are made by consensus by all signatories. Regular FPT meetings at the ministerial and officials levels are held to discuss the inter-governmental dimensions of the NAALC. The Canadian Intergovernmental Agreement regarding the NAALC has been signed by Alberta, Manitoba, Quebec, and Prince Edward Island, and consultations are underway to improve collaboration and increase the number of signatories. In the meantime, any province or territory, whether a signatory or non-signatory, is able to participate in or host cooperative NAALC activities and a number have done so.

### **Recommendation 6**

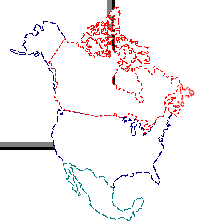
*In order to better position Canada and Canadians to meet the challenges of a rapidly changing North American policy environment that includes Mexico, the Government should:*

- *foster increased understanding through knowledge generation and dissemination of North American research results to the public;*
- *work to increase support for North American studies and education in cooperation with provincial and territorial governments, expand public information programs, and enhance its own policy research initiatives;*
- *investigate the idea of creating a knowledge-orientated entity or centre of excellence devoted to analyzing all aspects and impacts of North American integration, and invite the cooperation of US and Mexican partners in such an endeavour;*
- *explore other means of promoting networking and dialogue on North American issues, seeking to involve the broadest possible social participation.*

***and***

### **Recommendation 7**

*The Department of Foreign Affairs and International Trade in particular should look at ways to deepen knowledge and understanding of Canada's North American relationships, particularly with the United States and including those with Mexico. DFAIT should also promote public engagement in better defining and promoting Canadian foreign policy objectives in North America. For example, the Canadian Centre for Foreign Policy Development could be tasked with building links in this regard among*

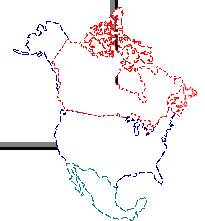


*foreign service professionals, parliamentarians, academics, other researchers, interest groups, and civil society organizations. Information technologies could also be used to improve interactive connections with the public at large.*

The Government agrees with these two recommendations, and continues to support specific events, research centres, and programming which aim to further our collective understanding of North America's relationships. For example, the Government has sponsored a number of major conferences on North America, including the June 2001 *North American Linkages: Challenges and Opportunities for Canada* in Calgary, the May 2002 *Strengthening the North American Partnership: Scenarios for the Future* in Ottawa, and the March 2003 *North American Forum on Integration* in Montreal. Each of these brought together government officials, scholars, private sector and civil society representatives from all three countries to discuss the challenges and opportunities of increased Canada-US-Mexico interdependence, and produced public summaries of discussions and outcomes.

The Government also supports centres dedicated to stimulating research on the North American dynamic and to building links with similar institutions in the US and Mexico. DFAIT contributed funds towards the creation and activities of the Centre on North American Politics and Society at Carleton University, which has generated interest in Canada, the US and Mexico in developing North American studies programs. DFAIT continues to provide funding for the Consortium for North American Higher Education Collaboration (CONAHEC), a tri-national entity established to advance and stimulate North American collaboration in education. The Canadian Foundation for the Americas (FOCAL), an independent, non-governmental organization which contributes considerable analysis on Mexico and on the North American dynamic, receives significant Government support for its activities.

Understanding the Canada-US and Canada-Mexico relationships contributes more broadly to our understanding of North America. In Mexico, DFAIT provides approximately \$250,000 per annum towards the Mexican Association for Canadian Studies (AMEC) and ten Canadian Studies programs. Our embassies and consulates in the US and Mexico maintain links with prominent think tanks, and regularly assist in organizing conferences and roundtables on bilateral issues of interest. In 2002, the Consulates General in New York and Buffalo co-sponsored a conference which brought together senior federal, provincial and state officials with private sector representatives to discuss Canada-US border issues. Recognizing that Canadians need to know more about Mexico, the February 2002 *Mexico Week* convened academics and policy makers from both countries to increase mutual understanding of the Canada-Mexico relationship and to further bilateral discourse on North American linkages. The results of *Mexico Week* were reported in a special May 2002 volume of the Policy Research Initiative's *Horizons*.



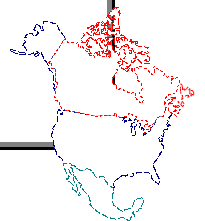
To encourage further public engagement, the Canadian Centre for Foreign Policy Development (CCFPD), is currently facilitating the ongoing activities related to the *Dialogue on Foreign Policy*, which gives Canadians an opportunity to respond either by mail, by using the Internet, and/or in person at town hall meetings held by the Minister of Foreign Affairs around the country.

### **Recommendation 8**

*The Government of Canada should increase its bilateral security cooperation with Mexico. The Government should also examine means of beginning a trilateral dialogue with the United States and Mexico to explore common perspectives on security issues in North America.*

The Government agrees that bilateral security cooperation with Mexico should intensify as reforms within Mexico's security and intelligence community progress. Since the July 2000 Mexican federal elections, numerous exchanges between Canadian and Mexican security, intelligence, defence, as well as border management officials have taken place. In February 2001, Mexico's National Security Advisor came to Canada to discuss issues of civilian oversight, accountability and transparency. This visit was followed by other official exchanges on government security policy, the protection of information, classification and security screening. DND officials have also indicated to their Mexican counterparts interest in enhancing Canada-Mexico defence relations. These efforts resulted in the visit of the Minister of National Defence to Mexico in January 2002, which was very well received. Other DND initiatives have included ship visits to Mexican ports, and attendance by senior Mexican Army and Navy officers on courses held at the Canadian Forces College. Following successful discussions with Mexico at the Fifth Conference of the Defence Ministers of the Americas in November 2002, and a DFAIT-supported high-level Mexican Peacekeeping Conference in January 2003, the Mexican Minister of Defence agreed to visit Canada in 2003.

September 11 brought a new public security dimension to Canada's North American relations, and underlined Canada's interest in ensuring a smooth flow of people and goods across not only the Canada-US border, but the US-Mexico border as well. A more fluid US-Mexico border facilitates the Canada-Mexico growing trade relationship. For this reason, the Government has shared its border management experiences with Mexico and will continue to encourage these exchanges. In January 2003, the Deputy Prime Minister met with Mexico's Secretary of Interior for the second time in six months to discuss, *inter alia*, border management; and, the Minister of the Canada Customs and Revenue Agency (CCRA) met with the Mexican Minister of Finance. The Government is also currently exploring how it might share information on migrants and visitors. Given the distinct interests, objectives and priorities in managing the Canada-US and US-





Mexico borders, the Government believes that a bilateral approach to problem-solving remains in Canada's best interest.

### **Recommendation 9**

*The Government should produce an annual report to Parliament reviewing in detail the status of the "Smart Borders" process. The ministers responsible for the implementation of border security measures should also appear before the relevant committees of both houses of Parliament on the substance of the report.*

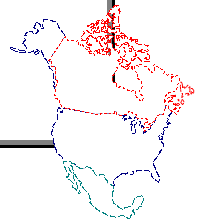
The Smart Border process has been a very successful, open bi-national border management initiative. Since the December 12, 2001 signing of the Smart Border Declaration, Deputy Prime Minister John Manley and Secretary of Homeland Security Tom Ridge have met and spoken regularly to review progress on Action Plan deliverables and have regularly shared progress reports with the public.

When Prime Minister Chrétien and President Bush met on September 9, 2002, they asked that Deputy Prime Minister Manley and Secretary Ridge continue overseeing implementation of the Smart Border Action Plan, and continue providing them with periodic progress reports. The first update report, following the September meeting, was released to the public on December 6, 2002.

Government departments involved in the Smart Border process continue to publicly report the status of many Action Plan items. For example, Canada and US Customs and Citizenship and Immigration Canada (CIC) and the US Immigration and Naturalization Service maintain websites and issue news releases on the progress of the Free and Secure Trade (FAST) and NEXUS programs. The DFAIT and White House websites maintain comprehensive and up-to-date coverage on the Smart Borders process. Canadian and US transportation and law enforcement agencies also update their progress on Smart Border initiatives through their websites and news releases.

The Parliament of Canada enjoys access to not only the substantial reporting discussed above, but also to regular appearances by senior Government officials before parliamentary committees responsible for these issues, as well as numerous informal briefing sessions for Parliamentarians. The Government will continue to keep Parliament informed as to the progress and challenges related to the Smart Border process through these existing and extensive reporting mechanisms. It should be noted that the provinces and territories, as well as industry stakeholders, are also regularly briefed on border and other related issues.

Ministers involved in the Smart Border process include those of the CCRA, CIC,



Transport Canada, DND, DFAIT, Agriculture and Agri-food Canada, as well as the Solicitor General and the Deputy Prime Minister. As always, Ministers remain available to appear before relevant committees of both houses of Parliament upon invitation.

### **Recommendation 10**

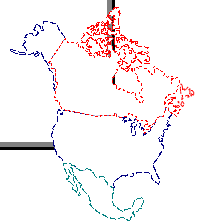
*While acknowledging potential legal restrictions, the Committee recommends that the House of Commons establish a Standing Committee on Security and Intelligence, with appropriate secure premises, dedicated and cleared staff and other requirements. In addition, the ad hoc Cabinet Committee on Public Security and Anti-Terrorism should be replaced by a permanent Cabinet Committee on National Security. Further, the Government should institute a review of Canada's intelligence services and report the findings to Parliament. Finally the Government should also facilitate increased parliamentary oversight in this area by the new Standing Committee on Security and Intelligence recommended above.*

The question of whether the House of Commons should establish a Standing Committee devoted entirely to security and intelligence issues is a matter for the House to decide.

Oversight of the Canadian Security and Intelligence community is elaborate and involves executive and judicial branches of Government. Independent review of the community is conducted by the Security Intelligence Review Committee in the case of the Canadian Security Intelligence Service (CSIS), by the Commission for Public Complaints Against the Royal Canadian Mounted Police (RCMP), and by the Commissioner of the Communications Security Establishment (CSE) in the case of the CSE. These review bodies produce annual reports that are tabled in Parliament by the Government. In addition, government-wide review is provided by the Auditor General, and departmental review is provided by the CSIS Inspector General. The Government believes there is currently no compelling need to modify the oversight architecture of the intelligence community as it has served Canada well.

The Ministerial Meeting on Security and Intelligence (MMSI), chaired by the Prime Minister with the Deputy Prime Minister as Vice-Chair, includes the Ministers of Foreign Affairs; National Defence; Justice; Citizenship and Immigration; National Revenue; and the Solicitor General. The MMSI affords an opportunity for Ministers to provide coordinated direction to the activities of the intelligence community.

In the aftermath September 11, a number of legislative, funding and procedural changes were made to strengthen public safety, improve the collection, analysis and sharing of intelligence, and enhance cooperation among members of the Canadian Security and Intelligence community. Many of the legislative changes will be reviewed by Parliament



as part of its three-year review of the *Anti-Terrorism Act*. Therefore, the Government is of the view that a further review of intelligence services is not required at this time.

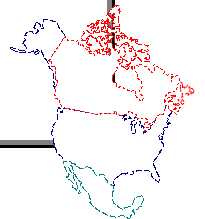
Also after September 11, the *ad hoc* Cabinet Committee on Public Security and Anti-Terrorism (PSAT) was established to provide a focal point for consideration by Ministers of issues related to Canada's security. The *ad hoc* Cabinet Committee on PSAT continues to serve Canada's security interests well as do other Cabinet committees which are, and will continue to be, called upon to address matters related to national security and anti-terrorism. Full Cabinet can convene at any time to make decisions on urgent and important issues.

### **Recommendation 11**

*The Government should make public all relevant agreements under which Canadian military planners will participate in the newly proposed planning and monitoring group to be co-located at NORAD headquarters. In order to allow for a full public debate over the group's usefulness and broader implications, the Government should also prepare and table a report on the work of this new group before the next renewal of the NORAD agreement.*

On December 9, 2002, the Government announced an agreement to enhance Canada's security cooperation with the United States. Upon signature, the Government immediately made public the agreement and distributed it widely. The agreement established a bi-national Planning Group co-located with the North American Aerospace Defence Command (NORAD) that will help save lives and mitigate damage by: coordinating bi-national maritime surveillance and intelligence sharing; providing attack warning and threat assessments to both governments; developing contingency plans for bi-national military support to civilian authorities; and, conducting joint exercises. All plans prepared by the Planning Group will be approved by both governments.

The Planning Group has been established for an initial two-year period. The Minister of National Defence and the Minister of Foreign Affairs will provide the Government with a recommendation concerning the Planning Group's activities at the end of that period. The Government will then determine, in consultation with the US government, whether to renew, modify or terminate Canada's involvement in the Planning Group. The Government will inform Parliament and the public of the activities of the Planning Group through Departmental Performance Reports as well as the Annual Reports of the Chief of the Defence Staff.



## **Recommendation 12**

*The Government should not make a decision about missile defence systems being developed by the United States, as the technology has not been proven and details of deployment are not known. However, the Government should continue to monitor development of this program with the Government of the United States and continue to oppose the weaponization of outer space.*

The Government is thoroughly reviewing all facets of US missile defence plans and their implications in advance of any Canadian decision on missile defence. The Government has conducted regular and routine consultations with the US and allies, both bilaterally and through NATO, on this issue and will continue to do so. Canada shares US concerns about the proliferation of missiles and weapons of mass destruction but also continues to have questions about missile defence's potential impact on arms control and global stability.

Canada remains opposed to the weaponization of outer space. Canada does support the continuing use of space for military purposes such as surveillance, intelligence gathering and communications, but remains opposed to the positioning of actual weapons in outer space. It is currently not clear that a US missile defence system would include or promote the weaponization of space.

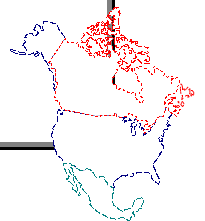
The US has begun to disclose some details of its proposed missile defence system and a high degree of effort and resources are being devoted to it. The US plans to deploy an initial missile defence capability by 2004. Given this decision and timeline, the Government of Canada will evaluate how it might continue to engage the US, and assess whether Canada should play a role.

## **Recommendation 13**

*Taking into consideration the forthcoming reviews of Canada's foreign and defence policy, and recognizing the important contribution of the Canadian Forces in achieving Canada's foreign policy goals, the Government should commit itself to substantially increased and stable multi-year funding for the Department of National Defence.*

The Government is committed to providing National Defence with the resources required to fulfil its mandate in a dangerous and unpredictable security environment.

The defence budget reductions that characterized the 1990s, part of the Government's successful effort to eliminate the federal deficit, came to an end several years ago. The Department of National Defence received additional funding in the federal budgets of



1999, 2000, and 2001. As a result of these budgets, defence funding will have increased by a total of \$7.2 billion between 1999-2000 and 2006-2007. As the Committee correctly points out, in 2001, Canada's defence spending ranked 6<sup>th</sup> in NATO in terms of dollars spent, and by the same measure, Canada ranked 15<sup>th</sup> in the world.

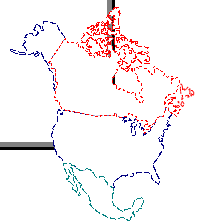
That said, the Government recognizes that the Canadian Forces continue to face serious challenges. With these challenges in mind, the Government recently announced as part of *Budget 2003* that the defence budget would be increased by \$1.6 billion over the next two fiscal years. This represents an \$800 million increase to the Department's baseline funding. National Defence also received an additional \$270 million in 2002-2003 to address urgent needs and to cover the remaining costs of Canada's contribution to the operation in Afghanistan. These funding increases, combined with the Minister of National Defence's commitment to find additional annual savings of \$200 million within the department, will help stabilize the Canadian Forces. The Canadian military will use these funds to support training and recruitment programs; acquire much-needed spare parts and relieve pressure on the operational support budget; support and enhance the Reserves; buy equipment and modernize capabilities in selected areas; address pressing infrastructure maintenance and replacement needs; and ease pressure on operations at home and abroad.

The Government remains committed to setting out longer-term direction on defence policy that ensures the military is equipped to fulfil the demands placed upon it. The Canadian Forces not only make an important contribution to the achievement of our foreign policy goals - including those related to our relationship with the United States - but also play a critical role in defending our territory and sovereignty and supporting civil authorities and other Government departments at home. In short, they help make Canada a strong and safe nation.

#### **Recommendation 14**

*In view of the changed security environment in North America since September 11, 2001, the governments of Canada and the United States should expand the mandate of the Permanent Joint Board on Defence to include relevant security issues and officials. The Government of Canada should also facilitate interactions between the Board and Canadian Members of Parliament, and encourage the Government of the United States to do likewise.*

*More generally, the Canadian Ministers of Foreign Affairs and National Defence along with the US Secretaries of State and Defence – and other relevant Cabinet members as may be necessary – should meet at least once a year, alternating between Canada and*



*the United States, to discuss mutual defence and security issues. These meetings should be coordinated with the Permanent Joint Board on Defence.*

The Government recognizes that definitions of security have changed and broadened post-September 11. The 210<sup>th</sup> Permanent Joint Board on Defence (PJBD), held 15-18 October 2002 in Comox BC, had as its theme *Enhancing North American Security*. It examined North American defence in broader terms, and included presentations from other agencies such as the US Office of Homeland Security and the RCMP.

The PJBD is a privileged forum for Canada that offers a unique opportunity for deliberations between Canadian and US personnel on mutual and shared interests and priorities. The Government supports the recommendation to foster greater interaction between parliamentarians and the PJBD. Cabinet ministers meet regularly with their US counterparts both bilaterally and in multilateral fora such as NATO and the G8. For example, the Minister of Foreign Affairs held bilateral meetings with the US Secretary of State on November 13, 2002 and on January 28, 2003. Similarly, the Minister of National Defence met with the US Secretary of Defense on January 8, 2003. The Government continues to encourage regular bilateral meetings and remains open to the possibility of joint meetings of the Canadian Ministers of Foreign Affairs and National Defence together with the US Secretaries of State and Defense.

#### **Recommendation 15**

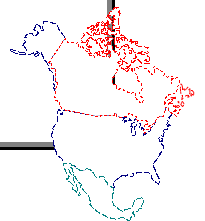
*The Government of Canada should resist the temptation to seek short-term gains through reactive, ad hoc solutions to trade problems with NAFTA partners. Wherever possible, trade disputes should be addressed through rules-based, institutional mechanisms, and the Government should use its best efforts to improve and expand such mechanisms on a continental basis.*

***and***

#### **Recommendation 20**

*The Government of Canada should generally refrain from linking different trade sectors as a strategy for retaliation or dispute resolution. Canada should focus on addressing each dispute on its own terms, and within a rules-based framework.*

Trilateral trade has increased by 112 percent since the NAFTA was implemented on January 1, 1994, and in 2001 amounted to \$615 billion. Given this volume, it is not surprising that trade disputes arise between the NAFTA countries. It is important to remember that most of the small number of trade disputes that have arisen have been



successfully resolved.

The Government of Canada fully agrees with the Committee that, on those rare occasions when a trade dispute does arise, it must be dealt with on its own terms, in an effort to reach a mutually satisfactory outcome within a rules-based framework, including through consultations, negotiations or recourse to formal dispute settlement.

As well, the Government of Canada agrees with the Committee on the value of developing a dispute resolution mechanism as part of Canada's free trade agreements with countries in the hemisphere. All of Canada's Free Trade Agreements in the region, including those that are currently being negotiated, include dispute resolution provisions.

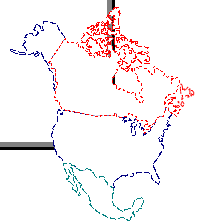
In negotiating each new agreement, the Government bears in mind the importance of improving upon provisions of existing agreements, taking into consideration the experiences gained from their operation.

### **Recommendation 16**

*The Government of Canada should work with Mexico to encourage the United States to agree to improve the rules-based foundation of the general dispute settlement mechanism in Chapter 20 of NAFTA. The final reports of arbitral panels should be made automatically legally binding on the parties to the dispute. In event that such a change is not possible, the Government should strive to make maximum use of the multilateral dispute settlement mechanisms under the WTO for resolving disputes that arise under Chapter 20 of NAFTA.*

*In addition, the Government should work towards increasing the transparency of the dispute settlement process by releasing all documents relevant to a proceeding, without causing prejudice to companies. The Government should also work toward increasing openness of the process by enlarging participation beyond the NAFTA states to interested third parties, such as provinces, non-governmental organizations and others.*

The Government's experience with the general dispute settlement mechanism in Chapter 20 has been good. At the same time, discussions on ways to improve the system could be beneficial. The Government agrees that enforcement mechanisms are central to an effective dispute settlement mechanism. NAFTA dispute settlement provisions, like those of the WTO, provide for a final report that is binding on the parties to the dispute unless there is a consensus agreement otherwise. While disagreements can occur between disputing parties as to measures taken to implement the final report, this has not been a contentious issue among the NAFTA partners.

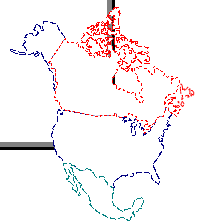


The decision on whether to pursue dispute settlement under NAFTA Chapter 20 or under the WTO largely reflects an assessment of the rights and obligations in the respective agreements relevant to the dispute. In instances where there is an obligation under the NAFTA, but no similar or related obligation in the WTO agreements, the dispute could be adjudicated only under the NAFTA. Where both the NAFTA and WTO agreements contain comparable obligations, governments may weigh a number of factors in selecting the forum for the dispute, including the scope of the obligations in the respective agreements, the support provided by the involvement of a broader constituency of trading partners in the WTO system, and relevant case law.

Transparency in international trade agreements and their mechanisms is of top priority to the Government. With respect to NAFTA Chapter 20, the Government pursued this goal in the negotiation of the Model Rules of Procedure. This resulted in a supplement to the dispute settlement rules of procedure; these supplementary procedures provide that at any time during the proceedings, any NAFTA government may make public its written submissions and those of the other parties involved in the dispute following the removal of any confidential information. In addition, the panel hearing transcript may be made public 15 days after the final report of the panel is published. Since 1995, it has been Government policy to make these documents public, subject only to removal of any confidential information. The Government agrees that NAFTA Chapter 20 transparency would be improved by opening the hearing to public observers, provided that adequate procedures are in place with respect to confidential information, and agrees to engage with the US and Mexico on this issue.

The development of Canada's position before dispute settlement panels benefits from a consultation process with interested third parties that often includes industry, provinces, and non-governmental organizations, particularly with those closely involved with the dispute. The Government accepts the Committee's recommendation that Canada advocate an expanded role for interested non-governmental parties and work towards developing a formal NAFTA Chapter 20 procedure to address their role in Chapter 20 dispute settlement. In developing these procedures in the NAFTA, as in the WTO, it is important that any increased rights of intervention for non-governmental interests be balanced against the relevance their submissions might have to the factual and legal issues under consideration and the potential of these submissions to jeopardize the capacity of the panel to deliver prompt settlement of disputes in a manner that satisfies due process requirements.

In the Committee's Report, it has also observed that the NAFTA Chapter 20 dispute settlement mechanisms includes a meeting of the NAFTA Free Trade Commission as an intermediate step between consultations and a request for an arbitral panel. It states that this step is a political one which derails the rules-based focus of the system. Far from





derailing the rules-based focus of the system, this post-consultations meeting enhances it. It provides a further opportunity to resolve issues consistent with the rules and allows the Parties to settle the manner without recourse to time-consuming and expensive litigation.

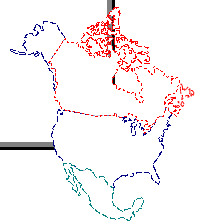
### **Recommendation 17**

*When a NAFTA binational panel finds that the final determination by a government agency to impose anti-dumping or countervailing duties was in error, all duties should be repaid by the domestic authority to the foreign exporter. The Government of Canada should therefore propose to its NAFTA partners a formal system for repayment of all duties, retroactive to the date set by any preliminary and/or final determination imposing duties.*

Article 1904.15(a) of the NAFTA requires each NAFTA Party to “amend its statutes or regulations to ensure that existing procedures concerning the refund, with interest, of antidumping or countervailing duties operate to give effect to a final panel decision that a refund is due...”. The Government is not aware of any evidence that any of the three NAFTA Parties have not incorporated this obligation in their own domestic laws, nor is it aware of any specific circumstance in which antidumping or countervailing duties which should have been refunded further to a panel decision was not eventually refunded by the appropriate domestic authority.

Canadian governments and industry have requested NAFTA Chapter 19 panel reviews of last year's US final determinations of subsidy, dumping and injury with respect to imports of softwood lumber from Canada. The panels are now reviewing the US determinations; the results of these reviews are binding. The Government has confidence in the strength of Canada's arguments before these panels. In the event that Canadian parties are successful before these panels, the United States will be required to refund the countervailing and anti-dumping cash deposits collected with interest.

The Special Import Measures Act (SIMA) is administered by the Canada Customs and Revenue Agency (CCRA) and the Canadian International Trade Tribunal (Tribunal). Certain dumping and countervailing determinations made by the Commissioner of the CCRA or the Tribunal under SIMA can be appealed to a NAFTA bi-national panel (Part I.1 of SIMA). In some cases, this can result in a decision by a panel to remand the determination back to the Commissioner or the Tribunal for reconsideration. This could result in a different determination by the Commissioner or the Tribunal. As a consequence, anti-dumping or countervailing duties that had been collected by CCRA in respect of the original determination may be refunded, in whole or in part, as required by Section 12 of the SIMA. Therefore, the Committee's recommendation is already implemented in Canadian legislation.



### **Recommendation 18**

*The Committee supports the ongoing use of the Chapter 19 binational review procedure – and, where appropriate, the WTO dispute settlement system – and recommends that the Government of Canada continue to pursue all legal avenues for the effective resolution of current trade disputes, especially the softwood lumber dispute.*

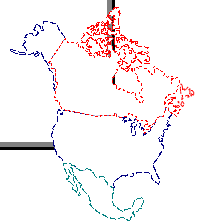
The Government agrees with the Committee's recommendation and will continue to pursue all legal avenues to resolve trade disputes, including the softwood lumber dispute.

In the softwood lumber dispute with the United States, the Government of Canada is taking all actions possible to protect the interests of the Canadian lumber industry, its workers and lumber communities across the country. Canada is challenging the US trade actions before the World Trade Organization (WTO) and North American Free Trade Agreement (NAFTA). Six challenges of the US final determinations of subsidy, dumping and injury have been initiated before international tribunals. These six challenges are in addition to three earlier challenges of US trade legislation and practice respecting export restraints, the refund of countervailing and anti-dumping duties, and the Byrd Amendment providing for the distribution of duties to US industries. Canada also successfully challenged the US preliminary determination of subsidy. At the same time, the Government is committed to finding a long-term policy-based resolution of the trade dispute. Working closely with provinces and the lumber industry, the Government has been exploring with the United States whether a basis exists for a durable solution to the dispute.

### **Recommendation 19**

*Taking into account similar negotiations currently underway in the WTO forum, the Government of Canada should vigorously pursue consultations with Mexico and the United States under Article 1907 of NAFTA in order to actively engage them in the development of a common North American anti-dumping and countervail regime.*

The Government has long held that, in the integrated North American market, the use of trade remedy measures is counterproductive. Accordingly, the Government continues to pursue the objective of a common approach to trade remedies within the NAFTA. In steel, for example, the Governments of all three NAFTA Parties are working both multilaterally, within the context of the Organization for Economic Cooperation and Development (OECD), and trilaterally, within the context of NAFTA, to address trade issues. The results of the collaboration in the steel sector could serve as a future model when examining possible alternatives to trade remedy measures.



## **Recommendation 21**

*In light of the United States' recent policy change with respect to aspects of Chapter 11 of NAFTA, the Government of Canada should review as soon as possible with Mexico and the United States elements of Chapter 11 that have proved problematic, in particular the investor-state provisions.*

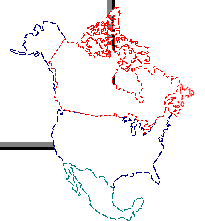
Providing investors with protection from arbitrary and discriminatory actions is not only important, it is also in Canada's interest. It promotes a stable and secure environment for international investment, which facilitates innovation, productivity and prosperity, both at home and abroad. This is why the NAFTA includes the investment protections contained in Chapter 11.

The Government views the NAFTA, including Chapter 11, as working reasonably well. In order to develop a consistent understanding of this Chapter, the NAFTA Partners have been engaged in the important and on-going task of reviewing the operation of these provisions and clarifying, as necessary, their terms.

On July 31, 2001, under the aegis of the NAFTA Free Trade Commission, the NAFTA Trade Ministers issued a binding note of interpretation concerning NAFTA Chapter 11, which was intended to bring greater transparency to the arbitration process, and to provide fair treatment of foreign investors. The Ministers also directed trade experts to continue examining the implementation and operation of Chapter 11, and develop recommendations as appropriate. At the May 2002 Free Trade Commission Meeting, the NAFTA Ministers directed trade experts to report regularly on developments related to this work.

Based on our shared experience with the NAFTA, Canada, Mexico and the United States are among the most experienced members of the international community with respect to the operation of investment rules. This shared experience will help in developing further clarifications of NAFTA Chapter 11 and positions with respect to future agreements.

With respect to the latter, the recently-passed US Trade Promotion Authority (TPA), which was signed into law on August 6, 2002, contains a number of provisions relating to future investment agreements. TPA does not directly bear on existing trade agreements, including the NAFTA. This said, the objectives set out in the TPA may signal an opportunity for greater refinement of international investment protection rules. In turn, this may assist in our ongoing review of such protections in the NAFTA.



## **Recommendation 22**

*The Government of Canada should discuss with its Mexican and American counterparts ways to ensure adequate funding and enforcement powers for the North American Commission for Environmental Cooperation created under the North American Agreement on Environmental Cooperation.*

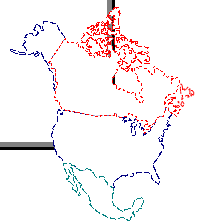
From its inception, the NAAEC was designed to provide for broad based environmental cooperation to strengthen environmental management and promote sustainable development. This focus on cooperation was entrenched with the creation of the North American Commission for Environmental Cooperation (NACEC). The NACEC was established to address regional environmental concerns and help prevent potential trade and environmental conflicts. The cooperative initiatives undertaken by the NACEC help promote compliance and commitments by the three NAFTA partners to effectively enforce their environmental laws. The Commission itself does not have enforcement powers.

The NAAEC contains two mechanisms that are the necessary complements to cooperation and are designed to facilitate and support the Parties' enforcement commitments: Articles 14/15 Citizen Submissions on Enforcement Matters mechanism and the Part V provisions for consultation and resolution of disputes. The former enables the public to play an active role when it believes that a government is failing to effectively enforce its environmental laws, and has been used by citizens in all three countries. The latter could always be triggered should a dispute emerge but Parties have not yet used this provision.

The current \$US 9-million-a-year NACEC budget shared equally among the three NAFTA partners allows the NACEC to undertake meaningful cooperative activities in a number of areas. It is important to emphasize that the budget of the NACEC is not meant to fund programs in the three countries that should actually be supported by the governments themselves. The NACEC's funding facilitates joint work, builds capacity, and achieves results in key areas of interest for the three Parties. The NACEC is beginning a strategic planning exercise with a view to encouraging better planning decisions and more effective use of the Commission's resources, and ensuring a sharper focus to its work.

## **Recommendation 23**

*The Government of Canada should initiate discussions with the governments of Mexico and the United States on ways to improve the enforcement of labour laws and standards under the North American Agreement on Labour Cooperation (NAALC). Ensuring*



*adequate funding for the NAALC Secretariat should also be discussed.*

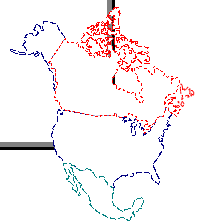
The Government of Canada has sought, since the NAALC came into effect on January 1, 1994, to promote the effective enforcement of labour laws and standards in North America. It has also consistently sought consensus among the Parties to increase the funding of the Secretariat of the Commission for Labour Cooperation so that it may, among other objectives, carry out its mandate to report on trends and administrative strategies related to implementation and enforcement of labour laws.

Canada supports a meaningful program of cooperative action under the Agreement, for example, by actively participating in the Tri-National Occupational Safety and Health Working Group. Canada will continue to seek consensus support for activities related to the effective enforcement of labour laws and standards. The next Four-Year Review of the Agreement (due to begin in 2003) will provide a new opportunity to raise issues related to the effective implementation and other improvements to the Agreement with the United States and Mexico.

#### **Recommendation 24**

*The Government of Canada should initiate discussions with Mexico and the United States on the feasibility of developing a permanent North American court on trade and investment that would consolidate the existing NAFTA dispute settlement processes under a single trilateral juridical body.*

The Government takes note of this recommendation. The feasibility of a permanent North American court on trade and investment that would consolidate all existing dispute settlement processes under a single tri-national juridical body, however, requires careful examination in the light of the different dispute processes in the NAFTA and attendant expertise required of panellists. For example, the NAFTA Chapter 19 bi-national panel process, which is a replacement for judicial review by the domestic courts of a NAFTA Partner in countervailing and anti-dumping cases, reviews against a domestic law standard measures taken by a NAFTA Partner to remedy subsidies and dumping. In contrast, the State-to-State dispute settlement processes in Chapter 14 and Chapter 20 and the investor-State dispute settlement process in Chapter 11 interpret the rights and obligations of the parties to the dispute in accordance with the terms of the Agreement and applicable rules of international law. However, the Government agrees that the current dispute settlement mechanisms in the NAFTA could benefit from improvements and agrees to engage Mexico and the United States in discussions on this matter.



## **Recommendation 25**

*Given the critical need for new infrastructure at key Canada-US border locations, the Government of Canada should accelerate its efforts to construct such infrastructure at existing border points and more actively encourage its American counterparts to do the same.*

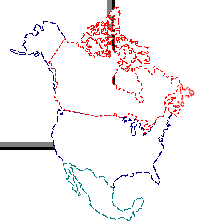
The Government recognizes the critical role that border infrastructure plays for the Canadian economy. The Government is working with key partners to implement several new initiatives and accelerate existing programs to reduce border congestion by expanding infrastructure and the use of technologies such as Intelligent Transportation Systems (ITS). These steps support the objectives of the December 2001 Canada-US Smart Border Action Plan.

Through the Border Infrastructure Fund, announced in 2001, the Government will directly provide \$600 million over five years, to be matched by contributions from the provinces and other partners, resulting in at least \$1.2 billion in total improvements to Canada's border infrastructure. This is in addition to the \$65 million set aside under the Government's Strategic Highway Infrastructure Program.

Given that 70 percent of Canada's border truck traffic moves over six crossing points, the majority of the Fund will be dedicated to improvements at: Windsor, Sarnia, Niagara Falls and Fort Erie in Ontario; Douglas, British Columbia; and Lacolle, Quebec. The Government and the provinces have recently announced several new initiatives, including: \$75.2 million for the Lacolle crossing and the highway leading to it; \$243 million for the British Columbia Lower Mainland; and \$10 million for Saskatchewan.

The Federal and Ontario Governments are working closely to address border congestion at the Windsor Gateway. As a first step, in July 2002, the two governments announced they would contribute \$880,000 for short-term traffic management improvements. The Prime Minister and Premier of Ontario have also announced a joint contribution of \$300 million to upgrade existing infrastructure. In addition, the Federal and Ontario Governments are exploring ways to accelerate the ongoing study being conducted by the Canada-US-Ontario-Michigan Bi-National Partnership to identify and address long term solutions to increase Windsor-Detroit border capacity.

Canadian and American officials meet regularly to discuss their respective needs and priorities for border infrastructure improvements. Also, Canada and the US have established the Transportation Border Working Group (TBWG) to enhance bi-national planning on border infrastructure matters. The TBWG consists of national, provincial/territorial and state transportation departments along with other interested



border management agencies.

### **Recommendation 26**

*The Government should ensure that the number of customs and immigration officers at the border matches current requirements, given the new security demands imposed on these officials. Training and equipment available to border officers should be enhanced.*

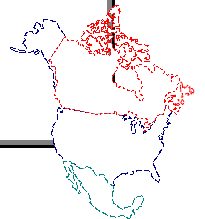
The Government worked quickly in the immediate aftermath of September 11, 2001 to respond to the new pressures placed on the border. For example, the Canada Customs and Revenue Agency (CCRA) received additional funding of up to \$87 million to improve its capacity to implement border initiatives. Citizenship and Immigration Canada (CIC) received \$49 million to fast track the permanent resident card for new immigrants, improve front-end screening of refugees, increase detention and deportation ability and hire up to 100 new staff to enforce upgraded security.

Of the \$1.2 billion allocated in Budget 2001 for border-related measures, \$443 million was targeted for measures to enhance border security while improving the flow of goods and people between Canada and the US. This included increased staffing at points of entry into Canada for both travellers and commercial goods, as well as new technology to help CCRA facilitate the passage of goods and people at border-crossing points. CCRA has put in place over 295 employees to enhance security through their programs while CIC added additional employees to assist with the Advanced Passenger Information (API) program. Additionally, CIC has hired 12 officers for Public Security and Anti-Terrorism. These officers have been placed at strategic ports of entry across Canada.

CCRA is investing approximately \$110 million, allocated over a five-year period, to purchase state-of-the-art contraband detection technology. CIC has spent \$5.7 million for 54 Automated Fingerprint Identification System (AFIS) Live Scan machines which allow immigration personnel at ports of entry to obtain automated fingerprints to assist in the identification of clients. Both customs and immigration agencies are committed to reviewing their needs at the border and ensuring that there are sufficient staff available who receive appropriate training to meet the heightened security demands.

### **Recommendation 27**

*The Government should thoroughly review the set of customs regulations currently administered by customs officials within the Canadian Customs and Revenue Agency, with a view to their modernization. Border officials should be fully versed in any resulting changes so that they can deal more effectively with today's border realities.*



Through the Customs Action Plan (CAP), the ongoing work of the *ad hoc* Cabinet Committee on PSAT, as well as the Canada-US Smart Border Action Plan, the Government has undertaken a comprehensive review of existing CCRA procedures and associated regulatory framework to ensure that customs processes and regulations reflect modern business practices and balance the need to collect revenue, ensure security, and facilitate trade. Supported by technology, legitimate trade and travel is being streamlined, based on a comprehensive risk management system that incorporates the principles of pre-approval, advance information, and self-assessment.

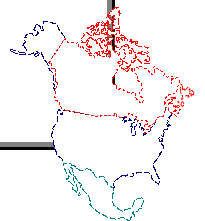
Launched on April 7, 2000 and composed of 17 initiatives, the CAP is a five-year roadmap of customs modernization to promote Canadian competitiveness in international markets, and support the health, safety and security values so strongly held by Canadians. The Plan's main features are risk-based processes for traders and travellers, and a revamped sanctions regime. Although well underway at the time of the September 11 terrorist attacks, CAP implementation was expanded and/or accelerated in some areas to enhance security without compromising the efficiency of the border. CAP advances positioned the Government to take swift action in partnership with the US to develop and implement the Canada-US Smart Border Action Plan for a collaborative, strategic approach for building an even more secure and efficient border.

The CCRA is responsible for eight of the 30 items of the Smart Border Action Plan, including harmonized, facilitative processes such as NEXUS Land and NEXUS Air for low-risk travellers, and the Free and Secure Trade (FAST) program for low-risk commercial traffic, as well as other joint customs activities such as Advance Passenger Information/Passenger Name Record (API/PNR), and in-transit marine container targeting. One of the objectives of the Smart Border Action Plan is to harmonize commercial processes with the United States. Work towards this goal will enable Canada to explore with the US the current regulatory environment with a view to ensure that we properly balance security interests while facilitating low risk trade.

Estimates based on the 2001 CCRA Annual Survey indicate that about 90 percent of all Canadians who had dealings with customs in 2001-2002 agree that the CCRA's Customs staff is knowledgeable and competent. Customs' ongoing training and aggressive transformation plan contribute to ensuring that this benchmark is maintained. Looking forward, a Customs Strategic Human Resources Plan is well underway to evaluate and plan for the work force needed by 2005.

### **Recommendation 28**

*The Government should undertake a thorough review of long-term options for the Canada-US border and present its findings to the public. This assessment should include*





*an evaluation of the European Union's experience in easing the movement of goods and individuals between most of its member countries and an analysis of the implications of establishing a security perimeter around North America.*

The Government is committed to examining any options for improving operation while providing appropriate security at the border.

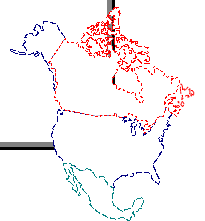
For several years now, the Government has been exploring different models of border management, such as the Britain-France "Chunnel" and the more general provisions set out in the European Union Schengen process. None of these models are directly applicable to the Canada-US border, but Canadian and US border officials meet regularly to explore options that could borrow from the experiences of others.

Canada-US border management evolves constantly as both governments seek to make the border more efficient and more secure. One of most visible examples of this commitment was the Canada-US Partnership Forum (CUSP), launched in October 1999 by the Prime Minister and US President. Government leaders from both countries met with local private- and public-sector leaders along the New York/Ontario border and along the Washington/British Columbia border to discuss how to improve management of the border. Drawing upon the lessons learned from those meetings, the CUSP report, "Building a Border for the 21st century" explores long-term options and outlines three guiding principles of border management endorsed by the Prime Minister and the President: streamline, harmonize and collaborate on border policies and management; expand co-operation to increase efficiencies in customs, immigration, law enforcement and environmental protection at and beyond the border; and collaborate on threats outside Canada and the United States.

In the aftermath of September 11, these principles were enshrined in the Smart Border Declaration of December 12, 2001. Some aspects of the Smart Border Action Plan, including joint Customs teams targeting containers at five North American seaports, and the increased use of Immigration Control Officers at airports overseas, are examples of the Government's implementation of new models of border management.

### **Recommendation 29**

*To ensure that the Canadian economy remains competitive within an increasingly integrated North American economy, and to boost living standards in Canada, the Government should urgently implement additional measures to help reverse the Canada-US productivity gap. Emphasis should be placed on providing tax and regulatory relief, working together with the provinces to eliminate barriers to inter-provincial trade and generating investments in Canada's labour force.*



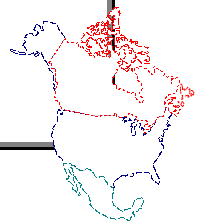
Enhancing Canadian competitiveness lies at the heart of the Government's agenda. Through eliminating the deficit and measures stimulating economic growth, we have made significant strides in boosting our standard of living. From 1997 to 2002, Canada recorded the fastest rate of GDP growth per capita - which represents the best measure of living standards - among other leading industrialized countries, including the United States.

In 2000, the Government introduced a five-year \$100 billion tax reduction plan - the largest tax cut in our history - establishing a tax advantage for investment Canada as a fundamental part of our strategy to foster a strong and productive economy. With cuts implemented to date, together with cuts to provincial corporate taxes, the average (federal and provincial) corporate tax rate (including capital taxes) is now below the average US rate. *Budget 2003* builds on this investment advantage by proposing the elimination of the federal capital tax over a period of five years, completely eliminating the tax for medium-sized corporations as early as 2004.

*Budget 2003* will also help to ensure that Canada's productivity growth continues to rise, and with it, Canadians' standard of living, through the Government's continued investments in strengthening skills and learning for Canadians. Four national innovation priorities have been identified to guide our investment in these areas: promoting a culture of lifelong learning; increasing workplace skills and development; promoting an inclusive workforce; and expanding our knowledge and information on learning. These priorities are reflected in *Budget 2003* announcements including: improvements to the full-time Canada Student Loans Program; the Aboriginal Skills and Employment Partnership Initiative; renewed funding for Employability Assistance for Persons with Disabilities; and enhanced foreign credential recognition processes.

*Budget 2003* also included significant new funding commitments to support working families with children, including such initiatives the National Child Benefit Supplement and the recently announced Child Disability Benefit for low- and modest-income families. The Government is providing \$2.2 billion over 5 years to support provincial and territorial investments in early childhood development services, as well as funding to improve access to affordable, quality provincially- and territorially-regulated early learning child care programs and services.

Since the Agreement on Internal Trade (AIT) came into effect in 1995, strong progress has been made in eliminating barriers to the movement of persons, goods, services and investments within Canada, specifically in key areas such as procurement, labour mobility, consumer-related standards and measures, transportation and the environment. A key element of the AIT is the requirement on each party to recognize the qualifications



of Canadian workers from other jurisdictions. To date, most self-regulated occupations have developed mutual recognition agreements to facilitate the mobility of workers. While barriers still exist, the Government remains committed to working with the provinces and territories to further reduce impediments.

### **Recommendation 30**

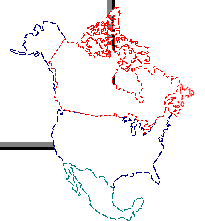
*When evaluating measures to ease the burden that different regulatory systems can impose on companies undertaking business in North America and to avoid the drawbacks of regulatory harmonization, the Government of Canada, in consultation with the provinces, should seriously consider entering into agreements with its NAFTA partners to implement mutual recognition schemes for existing regulations. Under such arrangements, countries would recognize each other's regulatory standards as appropriate, thereby facilitating cross-border commerce.*

Canada continues to seek ways to ease the regulatory burden on companies and to facilitate trade within NAFTA, keeping in mind the need to protect the health and safety of Canadians. For example, part of the mandate of the NAFTA Committee on Standards-Related Measures (CSRM) is to facilitate the Parties making compatible standards-related measures, which includes technical regulations. The CSRM thus provides excellent opportunity for the advancement of such ideas.

Mutual recognition is one option within a range of regulatory cooperation activities, which also includes accreditation and certification, mutual recognition agreements (MRAs), equivalence (acceptance or recognition of foreign regulatory approaches or decisions as providing equivalent levels of protection); and full harmonization (identical regulations or use of international standards).

Canada has been involved in a number of bilateral and multilateral MRAs on conformity assessment for the past ten years. Such agreements are intended to result in an importing country accepting reports prepared in the exporting country attesting that products meet the importing country's regulatory requirements. However, MRAs have proven to be extremely time-consuming, resource-demanding and incredibly complex – while not guaranteeing any certainty of success at the end of the day.

Canada is open to exploring other means of enhancing regulatory cooperation with our NAFTA Partners including the use of equivalence agreements, on a sector-by-sector basis. The process of determining whether three different standards or regulations provide a similar level of protection will prove to be challenging in its complexity. However, there may be some sectors in which the NAFTA regulatory systems work to similar goals and produce similar results. Canada remains open to explore regulatory



cooperation opportunities that will facilitate trade.

### **Recommendation 31**

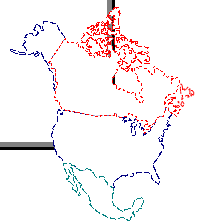
*The Government of Canada should consider undertaking a two-track approach to North American economic integration. Identified barriers to more efficient conduct of cross-border business should be removed in an incremental manner in conjunction with Canada's NAFTA partners. While the Committee has taken no position on the merits of a North American customs union, we believe it would be useful for the Government concurrently to initiate a detailed review of the advantages and disadvantages of the concept in the North American context. The review could include an assessment of the use of the integrated North American steel industry, among others, as a prototype for a broader customs union of some kind.*

The framework under which the economies of Canada, the US and Mexico are becoming increasingly integrated was established by the NAFTA. Market forces continue to propel integration, facilitated by the certainty and transparency brought by NAFTA's legal framework. Accordingly, exporters and investors are better able to realize their full potential by operating in a larger, integrated market.

Furthermore, the NAFTA is a useful tool to promote a more efficient and integrated North American economy. NAFTA's institutional framework, consisting of more than 30 committees and working groups overseen by the Free Trade Commission, was designed to assist in the implementation of the agreement and to pursue a number of improvements with a view to keeping the Agreement responsive to changing needs.

The working groups and committees actively seek to remove existing impediments to trade and investment. Canada's priorities within this context are those activities that can have an important positive effect on business. At the May 28, 2002, NAFTA Commission meeting held in Puerto Vallarta, Mexico, Ministers directed officials to review the prospects of additional trilateral work that could stimulate trade and investment. Canadian officials, in conjunction with their Mexican and US counterparts, will continue to identify existing impediments to trade and investment and conduct the necessary work to eliminate them through the NAFTA.

Deeper/more formal integration in North America through the formation of a customs union would represent costs and benefits for each of the three NAFTA members. The balance of such an economic integration scheme is not at this time self-evident for any of them. The advantages and disadvantages of a North American customs union must be reviewed carefully and weighted against alternative approaches, such as the establishment of bilateral arrangements dealing with specific issues.



The Minister for International Trade has been using the steel sector as an illustration of how industries in the three NAFTA countries, in recognition of an increasingly integrated North American market, can ultimately avoid trade actions against each other. For example, imports from Canada were exempted from last year's US safeguard action on certain steel products. Indeed, all three NAFTA governments and steel industries are working towards the creation of a forum to have more regular exchanges of views and develop possible joint approaches to steel issues. In addition, the Government is cooperating with the US in the context of the OECD High-level Process on Steel, with the shared objectives of addressing worldwide excess steelmaking capacity and achieving better disciplines on trade distorting subsidies to steel. In the long term, the results of the collaboration in the steel sector could serve as a model when examining possible alternatives to trade remedy measures.

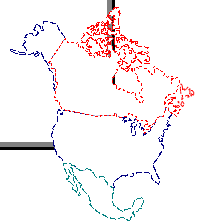
### **Recommendation 32**

*Given that certain vital preconditions to North American monetary integration (e.g., similarity in the economic structures of NAFTA participants, existence of labour mobility across borders, availability of a fiscal transfer system) are not presently met, the Government of Canada should oppose any current calls to abandon its existing flexible exchange-rate system. The Government should continue to carefully review its long-term currency options and, in so doing, assess the extent to which the Canadian economy is already dollarized and any associated impacts.*

The Government of Canada opposes any calls to abandon its existing flexible exchange-rate system in favour for either a fixed pegging or the outright adoption of the United States dollar. As David Dodge, Governor of the Bank of Canada, recently stated, the current economic benefits of dollarization do not outweigh the costs. Furthermore, as the Governor suggested, any possible adoption of the US dollar would more appropriately mark the completion of a lengthy process of economic integration and convergence, rather than the beginning. In this regard, recent research indicates that Canada is now less dollarized than it was two decades ago. Moreover, compared with the European Union, North American capital markets are already integrated, suggesting that many of the structural gains from dollarization would be modest. Convergence of North American economies remains under close, ongoing examination, as is the role of the US dollar in Canadian commerce.

### **Recommendation 34**

*The Government of Canada, using the new Cabinet Committee on North American Relations we have recommended, should identify specific areas of interest for enhanced cooperation. Specifically, the Government should encourage the United States to*



*designate a high-level political representative and should pursue the model of cooperation that has been developed in the security field by the current Canadian Deputy Prime Minister and the current US Homeland Security Director, proposed to become the Secretary of the new Department of Homeland Security.*

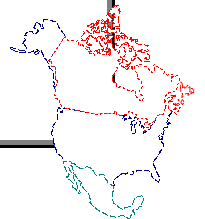
The Government takes note of the recommendation. The day-to-day transactions of the bilateral relationship are managed carefully at the senior officials level across responsible departments and agencies on both sides of the border, with Ministerial meetings reserved for the discussion of pressing issues requiring immediate political attention and/or guidance, as well as for strategic planning and overall management of issues. Canadian Cabinet Ministers and senior officials enjoy excellent working relationships with their counterparts in the United States and Mexico, engaging in regular and frequent communication in person and by telephone on issues of importance. Formal ministerial visits normally take place at least twice a year, often with ministers meeting their US counterparts on the margins of multilateral meetings as well during that time frame, for example, at the United National General Assembly or at annual NATO Ministerials.

On occasion, the Government has appointed a Cabinet Minister or a designated individual to take charge of a specific file or see through a specific agreed-upon bilateral initiative. During the free trade negotiations with the United States in the late 1980s, and then with the US and Mexico in the early 1990s, the Government appointed a Chief Trade Negotiator. Similarly, in the aftermath of September 11, 2001, the Deputy Prime Minister was given a mandate to address security issues at the Canada-US border with the then-US Director of Homeland Security. The resulting Smart Border Declaration committed our two governments to moving quickly on implementing the 30 initiatives contained within the agreed-upon Action Plan. This leadership has been instrumental in guiding the Action Plan towards its successful, full implementation.

### **Recommendation 35**

*The Government of Canada should work to develop closer relations with Mexico, in particular through:*

- *increasing support for initiatives to deepen Canadians' and Mexicans' knowledge of each other, especially in policy-related areas that are becoming more important in North American terms;*
- *identifying on an ongoing basis specific aspects of North American relations that warrant the development of a more strategic collaboration with Mexico in the Canadian interest, and exploring bilateral Canada-Mexico collaboration that may include joint rather than separate dealings with the United States;*

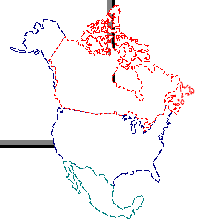


- *expanding Canada's program of bilateral cooperation with Mexico, and investigating the feasibility of increasing Canadian support for Mexico's development efforts, targeting to areas of greatest need and including consultations with a broad range of non-governmental stakeholders;*
- *involving parliamentarians as much as possible in the deepening of the Canada-Mexico relationship and supporting more inter-parliamentary deliberations on major bilateral and North American policy issues and taking the findings into account. Consideration could also be given to the participation of Canadian ministers in inter-parliamentary forums where that is deemed appropriate by the parliamentary representatives to such forums.*

The Government fully agrees with this recommendation. Since 2000 in particular, bilateral cooperation between our two countries has flourished across a wide range of sectors. In April 2001, the Prime Minister and Mexican President outlined a new agenda for bilateral relations, which included working together to promote democracy and good government and to strengthen civil society in Mexico.

Governance cooperation provides a new focus to the bilateral relationship, which the Government considers as a key contribution towards equipping Mexico with the tools needed to manage its development process. As described in more detail in response to Recommendation 1, senior Canadian officials continue to share information with their Mexican counterparts on managing the machinery of government. For example, the January 2003 Canada-Mexico MOU on Cooperation on Federalism is a collaborative effort to assist Mexico in modernizing its highly centralized system to make it more flexible and responsive to the needs of its citizens. These ongoing exchanges have laid the foundation for even stronger ties and the Government is committed to expanding this cooperation in many areas. Also towards Mexico's development goals, CIDA has disbursed an average of \$7 million per annum in Mexico over the past three years, primarily through the Partnership Branch, financing grass-roots projects in the poorest states of Southern Mexico.

Further enhancing the Canada-Mexico agenda is the frequency of bilateral contacts. Canadian and Mexican senior officials virtually across government are in continual contact, and well over half of Cabinet met with their Mexican counterparts over the past year, several more than once. Prime Minister Chrétien and President Fox have also met several times bilaterally, most recently in Mexico City in February 2003, and twice in a trilateral context with President Bush. A number of provincial governments have also established strong linkages with counterparts in Mexico.



Person-to-person exchanges have also increased steadily, including in the areas of culture, sports and education. Canadian educational institutions host over 10,000 Mexican students annually, and 10,739 Mexican seasonal agricultural workers came to Canada in 2002. The Government helps to support a vibrant Mexican Association of Canadian Studies (AMEC), 10 Canadian Studies programs at major universities and over 350 university-to-university agreements. Human Resources Development Canada, in cooperation with its counterpart departments in Mexico and the US, delivers the Program for North American Mobility in Higher Education, a successful trilateral student exchange and academic linkages program. Canada is increasingly visible on the Mexican cultural scene, and, in 2002, was the Country of Honour at the prestigious *Cervantino International Festival*. Similarly, in 2002, *Mexico Week* served to enhance Mexico's visibility in Canada. Canada and Mexico are also working together at the International Network on Cultural Policy in support of our common objectives for the international cultural diversity agenda.

The Government's continuing efforts to support parliamentary engagement in Canada-Mexico affairs, including via the annual Canada-Mexico Inter-Parliamentary Meeting, are detailed in response to Recommendation 37. The Government also agrees that Ministerial participation in parliamentary visits and meetings should be encouraged where appropriate. During the Prime Minister's visit to Mexico in February 2003, an encounter was arranged for the Prime Minister to exchange views with Mexican parliamentarians on international and bilateral issues.

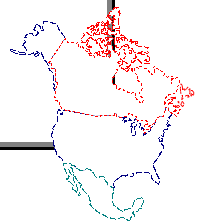
### **Recommendation 36**

*Canada should approach the United States and Mexico with a proposal for a trilateral North American cooperation framework under which the heads of government of the three countries would meet at least annually, and preferably every six months, on a prepared, mutually agreed agenda relating to matters of shared North American concern. Under this framework, foreign ministers and other ministers as appropriate should also be encouraged to have periodic trilateral meetings. A small supporting secretariat could be supplied by the host country on a rotating basis. In addition, Canada should investigate further options for enhancing this level of trilateral intergovernmental interaction on a more permanent and sustained basis.*

*and*

### **Recommendation 39**

*The Government of Canada should propose that the first formal North American leaders summit, on the model we have suggested, undertake to identify key sectors on which there*





*is agreement to pursue enhanced trilateral cooperation as a matter of priority. On that basis, a framework for trilateral cooperation should be developed for approval at a future summit, and progress in its implementation should thereafter be reviewed systematically at each summit meeting. The expert panel that we have recommended be established to advise on the future of North American partnership could also be tasked with providing an assessment of policy sectors that show the greatest potential for strengthened trilateral cooperation.*

The Government recognizes the importance of frequent meetings with American and Mexican counterparts at all levels. Since 2001, the three North American leaders have met trilaterally twice. Contacts between trade, labour and environmental ministers are regular and formally established within the NAFTA framework. There are also regular trilateral meetings of Finance ministers and Central Bank heads. The Government encourages its ministers and officials to think and consult trilaterally whenever it can best serve Canada's interests.

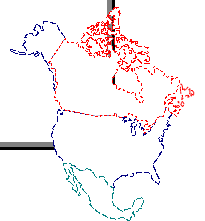
The Government believes that it is more efficient for ministers and officials to explore possible areas for trilateral cooperation within their areas of competence than for leaders to undertake this task. The Government will actively pursue any opportunities for enhanced trilateral cooperation that emerge from these discussions, where appropriate to our interests.

We must also utilize to their full potential the trilateral institutions and mechanisms which now exist under the auspices of the NAFTA and outside of the Agreement. Canadian senior officials are working with their Mexican and American counterparts to this end. For instance, the NAALC Working Group on Occupational Health and Safety is a new forum for officials to share expertise and make recommendations to ministers in this important area. Similarly, the formation of the senior officials-level North American Energy Working Group provides an excellent starting point for discussions on trilateral energy cooperation.

### **Recommendation 37**

*Consideration should be given to the following Canadian initiatives aimed at strengthening parliamentary cooperation on a North America basis:*

- *The leadership of Canada's Parliament should, in the first instance, encourage interaction between Canada-US and Canada-Mexico inter-parliamentary activities and encourage their consideration of the possibility of holding some joint meetings. Beyond that, Canadian parliamentary leaders should approach their counterparts in the United States and Mexico about the prospect of*



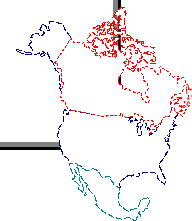
*eventually establishing an overarching North American parliamentary group drawn from members of the continuing bilateral groups.*

- *Further to the creation of such a trilateral parliamentary association, the Canadian Parliament should propose to its two congressional counterparts that an inaugural North American parliamentary forum be held on the future of North American partnership. Such a forum could include participation by elected non-federal officials as well as incorporate an opportunity for dialogue with both government and civil-society representatives from the three countries. Based on that experience, the trilateral forum could be continued at agreed intervals with the venue rotating among the three countries.*
- *Parliament and Government should ensure that the development of trilateral inter-parliamentary cooperation is adequately prepared, and supported with the additional resources that will be required for this purpose. Future consideration should also be given to exchanges of parliamentary and congressional staff and to establishing a North American congressional and parliamentary internship program.*

The Government is a strong advocate of strengthened parliamentary linkages, which are a key component to advancing Canada's foreign policy interests in general, including the development of the North American partnership. In a letter of July 15, 2002, the Minister for International Trade and Minister of Foreign Affairs encouraged the Parliament of Canada to support greater allocation of funding for parliamentary travel and stressed the importance of such activity for Canadian foreign and trade policy interests.

The Government believes that the question of the formation of a North American parliamentary group would best be pursued through engaging allies within the US and Mexican congresses through existing bilateral parliamentary groups and other inter-parliamentary fora. The Government encourages the exchange of parliamentary staff and believes that in this specific case, the exchange of staff involved in policy research on the North American dynamic would be useful.

Officials from DFAIT and other departments provide oral and written briefings and resource persons in support for the annual conferences of the Canada-US Inter-Parliamentary Group and the Canada-Mexico Inter-Parliamentary Friendship Group. DFAIT also provides support for regular parliamentary exchanges outside of these events. For example, in 2001 Canada welcomed five Mexican delegations consisting of Parliamentarians or government officials interested in parliamentary issues. Thus far in 2003, three Canadian parliamentary delegations have travelled to the United States to meeting with their congressional counterparts, as well as federal and state representatives



on Canada-US issues. In February 2003, the Canadian Embassy developed a program for parliamentarians accompanying the Prime Minister on an official visit to Mexico which aimed at further strengthening Canada-Mexico parliamentary relations.

The Government also encourages increased engagement between Canadian Parliamentarians and their US and Mexican counterparts at the multilateral level in organizations such as the Inter-Parliamentary Forum of the Americas (FIPA) and the Global Organization of Parliamentarians against Corruption (GOPAC). A tradition has developed for the Canadian and Mexican delegations to the Parliamentary Assembly of the Council of Europe to hold a joint working lunch during the Assembly's quarterly sessions in Strasbourg.

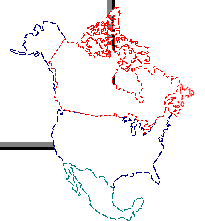
### **Recommendation 38**

*The Government of Canada should propose to the governments of the United States and Mexico the setting up of a small advisory high-level expert panel on the future of the trilateral North American partnership. The panel's mandate would have to be mutually agreed by the governments, and it would have to be given sufficient time to consult widely within the three societies before making its findings public. Such a panel could be asked to conduct an in-depth examination of the feasibility and desirability – notably from the standpoint of democratic transparency and accountability – of options for new trilateral institutions, including:*

- *a more permanent secretariat or “commission” to support ongoing work through trilateral summits and other intergovernmental political cooperation;*
- *a permanent NAFTA court on trade and investment;*
- *a North American development fund or financing mechanism.*

The Government believes that the debate on Canada's options in North America should be as open and wide as possible. Deepening interdependence impacts on our society and Canadians expect their government to consult them fully on this issue. We require a consensus on directions to be taken before we commit ourselves to the establishment of new trilateral institutions or programs.

A small, high-level, tri-national expert panel could provide useful input to the current discourse, but discussion needs to be broadly based. As discussed in response to Recommendations 6 and 7, policy makers, academics and think tanks across North America are already seriously studying the implications of integration, often with the Government's support and participation.



The Standing Committee's study is an excellent example of the open consultation that the Government wishes to promote. As the Committee's consultations in Washington and Mexico City highlighted, however, this debate is not unfolding within North America writ large. Promoting broad-based public debate in Canada, the United States and Mexico is fundamental to reaching a consensus on a trilateral agenda.

