

# Building a North American Community



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Report of an  
Independent Task Force

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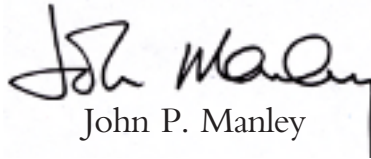
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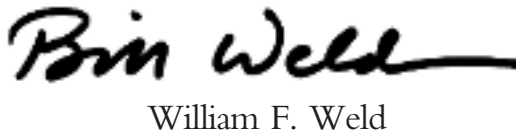
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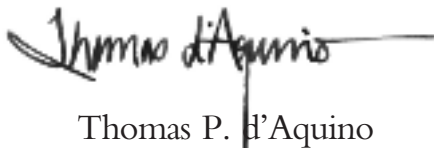


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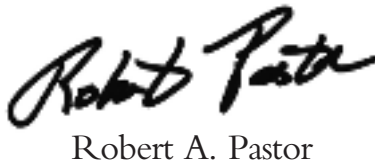
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# Contents

Foreword	xvii
Acknowledgments	xix
Task Force Report	1
Introduction	1
Recommendations	7
Making North America Safer	7
Creating a North American Economic Space	18
From Vision to Action: Institutions to Guide Trinational Relations	30
Conclusion	32
Additional and Dissenting Views	33
Task Force Members	40
Task Force Observers	47



# Tables des matières

Liste des membres du Groupe de travail	52
Avant-propos	53
Remerciements	55
Rapport du Groupe de travail	57
Introduction	59
Recommandations	66
Rendre l'Amérique du Nord plus sécuritaire	66
Créer un espace économique nord-américain	79
De la vision à l'action: Institutions pour guider les relations tripartites	93
Conclusion	95
Déclarations supplémentaires et points de désaccord	97
Les membres du Groupe de travail	105
Observateurs du Groupe de travail	113



# Contenido

Lista de los miembros del Grupo de Trabajo	118
Prólogo	119
Reconocimientos	121
Informe del Grupo de Trabajo	123
Introducción	125
Recomendaciones	132
Hacia una América del Norte más segura	132
Creación de un Espacio Económico de América del Norte	144
De la visión a la acción: Instituciones para guiar las relaciones trinacionales	158
Conclusión	160
Posturas adicionales y disidentes	161
Miembros del Grupo de Trabajo	168
Observadores del Grupo de Trabajo	176



# Foreword

America's relationship with its North American neighbors rarely gets the attention it warrants. This report of a Council-sponsored Independent Task Force on the Future of North America is intended to help address this policy gap. In the more than a decade since the North American Free Trade Agreement (NAFTA) took effect, ties among Canada, Mexico, and the United States have deepened dramatically. The value of trade within North America has more than doubled. Canada and Mexico are now the two largest exporters of oil, natural gas, and electricity to the United States. Since 9/11, we are not only one another's major commercial partners, we are joined in an effort to make North America less vulnerable to terrorist attack.

This report examines these and other changes that have taken place since NAFTA's inception and makes recommendations to address the range of issues confronting North American policymakers today: greater economic competition from outside North America, uneven development within North America, the growing demand for energy, and threats to our borders.

The Task Force offers a detailed and ambitious set of proposals that build on the recommendations adopted by the three governments at the Texas summit of March 2005. The Task Force's central recommendation is establishment by 2010 of a North American economic and security community, the boundaries of which would be defined by a common external tariff and an outer security perimeter.

Unlike previous Council-sponsored Task Forces, this project was international, or trilateral to be precise. The membership was

comprised of policy practitioners, scholars, and business leaders from each of the three countries. The Task Force held meetings in Toronto, New York, and Monterrey. In this effort, the Council partnered with two outstanding institutions, the Canadian Council of Chief Executives and the Consejo Mexicano de Asuntos Internacionales. I thank them for their collaboration, collegiality, and support. We were extremely lucky that three experienced and dedicated North Americans—John P. Manley, Pedro Aspe, and William F. Weld—agreed to lead this effort. My appreciation as well goes to vice-chairs Thomas P. d’Aquino, Andrés Rozental, and Robert A. Pastor, project director Chappell H. Lawson, and Lee Feinstein, executive director of the Council’s Task Force program. This report simply would not have been possible without their commitment, dedication, and expertise. Finally, I want to thank the Task Force members for the tremendous intellectual and time commitment they have made to this project, resulting in a valuable and lasting contribution to a subject of great importance to our three countries and beyond.

*Richard N. Haass*  
President  
Council on Foreign Relations  
May 2005

# Acknowledgments

A Task Force is only as good as its chairmen. This Task Force benefited immeasurably from the intellectual leadership and commitment of John P. Manley, Pedro Aspe, and William F. Weld. Their determination, humor, and good judgment brought this Task Force to a strong consensus. We were fortunate, also, to have had three highly knowledgeable and energetic vice chairs: Thomas P. d'Aquino, Andrés Rozental, and Robert A. Pastor. We are grateful to the Task Force membership, an impressive and dedicated group of Canadians, Mexicans, and Americans committed to building a more prosperous and secure North America. We thank Chappell H. Lawson, project director, for his fine contributions to the Task Force's work.

The Task Force thanks Canada's deputy prime minister and minister of public safety and emergency preparedness, Anne McLellan, and Suncor Energy Inc. President and Chief Executive Officer Richard George, who briefed the group in Toronto in October 2004; U.S. Senator John Cornyn (R-TX), Mexican Consul General Arturo Sarukhan, Hess Energy Trading Company Executive Adviser Edward L. Morse, and Director of the Center for Brazilian Studies at Columbia University Albert Fishlow, for their contributions to the meeting in New York in December 2004; and Nuevo Leon Governor Jose Natividad Gonzalez Paras and North American Development Bank Director Raul Rodriguez, who met with the Task Force in Monterrey in February 2005. In addition, the following individuals helped to ensure three productive Task Force sessions and deserve our hearty thanks: Dan

Gerstein, Eric Hrubant, Ramón Alberto Garza, and Eva Tamez. Nora Weiss, Elena Rich, Marcela Pimentel Lusarreta, Jorge Anaya, and Andrés Rozental lent their impressive translation skills to the effort.

Convening a trinational Task Force is a tremendous undertaking. It would not have been possible without the support of the Canadian Council of Chief Executives and the Consejo Mexicano de Asuntos Internacionales, which joined with the Council on Foreign Relations in this effort.

At the Council on Foreign Relations, we would like to thank Council President Richard N. Haass, who proposed this Task Force and supported it throughout. Lisa Shields, Anya Schmemmann, Kate Zimmerman, John Havens, Nancy Bodurtha, Meaghan Mills, Patricia Dorff, and Irina Faskianos helped to ensure that the Task Force's work received the attention of policymakers and press. Special thanks go to our colleagues on the Task Force staff, specifically Task Force Program Assistant Director Lindsay Workman and Research Associate Andrea Walther. This report would not have been possible without their expertise and dedication.

At the **Canadian Council of Chief Executives** (CCCE), we would like to recognize Executive Vice President David Stewart-Patterson, who provided significant editorial contributions, along with his colleagues Sam Boutziouvis, Nancy Wallace, Ross Laver, Cheryl Eadie, and Monique Kaymond-Duré. We also would like to thank the member chief executive officers whose companies support the CCCE's *North American Security and Prosperity Initiative*, which funded the CCCE's contribution to the work of the Task Force.

At the Consejo Mexicano de Asuntos Internacionales (COMEXI), our appreciation goes to its director, Aurora Adame, and to her able staff.

Finally, we are grateful to the Archer Daniels Midland Company, Merrill Lynch & Co., and Yves-Andre Istel **for the generous financial support each provided for the work of this Task Force.**

*Lee Feinstein*  
Executive Director, Task Force Program

# Task Force Report



# Introduction

The security and well-being of its citizens are at the pinnacle of any government's responsibilities. At the beginning of the twenty-first century, the futures of Canada, Mexico, and the United States are shared as never before. As a result, all three countries face a historic challenge: Do they continue on the path of cooperation in promoting more secure and more prosperous North American societies, or do they pursue divergent and ultimately less secure and less prosperous courses? To ask the question is to answer it; and yet, if important decisions are not pursued and implemented, the three countries may well find themselves on divergent paths. Such a development would be a tragic mistake, one that can be readily avoided if they stay the course and pursue a series of deliberate and cooperative steps that will enhance both the security and prosperity of their citizens.

At their meeting in Waco, Texas, at the end of March 2005, U.S. President George W. Bush, Mexican President Vicente Fox, and Canadian Prime Minister Paul Martin committed their governments to a path of cooperation and joint action. We welcome this important development and offer this report to add urgency and specific recommendations to strengthen their efforts.

The three countries of North America are each other's largest trading partners. More than 80 percent of Canadian and Mexican trade is with its North American Free Trade Agreement (NAFTA) partners. Almost one-third of U.S. trade is with Canada and Mexico. Trade among these three countries has tripled in value over the past decade.

In addition, cross-border direct investment has increased sharply, contributing to the integration of the three economies.

North America is also energy interdependent, though not energy independent. In 2004, Canada and Mexico were the two largest exporters of oil to the United States. Canada supplies the United States with roughly 90 percent of its imported natural gas and all of its imported electricity.

In addition, all three countries face common security dangers, from terrorism to drug trafficking to international organized crime. Addressing these dangers is a major challenge in this dynamic region: the borders between Canada, the United States, and Mexico will be crossed over 400 million times in 2005.

As liberal democracies, the governments also share common principles: protecting individual rights, upholding the rule of law, and ensuring equality of opportunity for their citizens. North America, in short, is more than an expression of geography. It is a partnership of sovereign states with overlapping economic and security interests, where major developments in one country can and do have a powerful impact on the other two.

More than a decade ago NAFTA took effect, liberalizing trade and investment, providing crucial protection for intellectual property, creating pioneering dispute-resolution mechanisms, and establishing the first regional devices to safeguard labor and environmental standards. NAFTA helped unlock the region's economic potential and demonstrated that nations at different levels of development can prosper from the opportunities created by reciprocal free trade arrangements.

Since then, however, global commercial competition has grown more intense and international terrorism has emerged as a serious regional and global danger. Deepening ties among the three countries of North America promise continued benefits for Canada, Mexico, and the United States. That said, the trajectory toward a more integrated and prosperous North America is neither inevitable nor irreversible.

In March 2005, the leaders of Canada, Mexico, and the United States adopted a Security and Prosperity Partnership of North America (SPP), establishing ministerial-level working groups to address key security and economic issues facing North America and setting a short

deadline for reporting progress back to their governments. President Bush described the significance of the SPP as putting forward a common commitment “to markets and democracy, freedom and trade, and mutual prosperity and security.” The policy framework articulated by the three leaders is a significant commitment that will benefit from broad discussion and advice. The Task Force is pleased to provide specific advice on how the partnership can be pursued and realized.

To that end, the Task Force proposes the creation by 2010 of a North American community to enhance security, prosperity, and opportunity. We propose a community based on the principle affirmed in the March 2005 Joint Statement of the three leaders that “our security and prosperity are mutually dependent and complementary.” Its boundaries will be defined by a common external tariff and an outer security perimeter within which the movement of people, products, and capital will be legal, orderly, and safe. Its goal will be to guarantee a free, secure, just, and prosperous North America.

### *What We Face*

Our countries face three common challenges:

**Shared security threats.** Over the last decade, terrorist and criminal activity has underscored North America’s vulnerability. All of the 9/11 terrorists succeeded in entering the United States directly from outside North America, but the 1999 arrest of a person trying to cross the Canadian-U.S. border as part of a plot to bomb the Los Angeles airport shows that terrorists may also try to gain access to the United States through Canada and Mexico. This person was found to have cased Canadian targets as well, and al-Qaeda has publicly listed Canada as one of its prime targets along with the United States.

Failure to secure the external borders of North America will inhibit the legitimate movement of people and goods within the continent. After the 9/11 attacks, delays at the Canadian-U.S. border prompted parts shortages in both countries, costing manufacturers millions of dollars an hour. Trade across the Mexican-U.S. border also suffered in the immediate aftermath of the attacks, which hindered U.S. economic growth. Continent-wide consequences mean that Canada and Mexico

have an overriding commercial interest in increasing North American security, apart from any other considerations. In addition, future terrorist assaults could target critical infrastructure or sites in any of the three countries.

Beyond terrorism, all three countries must deal with a persistent flow of undocumented immigrants. International criminal activity also poses a continuing threat to public safety in the region, including drug- and gang-related violence along the Mexican-U.S. frontier. These cross-border threats cannot be adequately addressed by any one government alone.

Failure to address security issues will ultimately undermine gains on other matters. In the North American context, failure to collaborate effectively to address security issues will have a direct impact on commercial relationships as well as on our freedoms and quality of life.

### **Shared challenges to our economic growth and development.**

NAFTA has dramatically enhanced our ability to make better use of the abundant resources of our three countries and thus made an important contribution to economic growth within North America. Over the last decade, however, our economies have faced growing challenges in increasingly competitive and globalized world markets. We need to do more to ensure that our policies provide our firms and workers with a fair and unfettered basis to meet the challenges of global competition. Unwieldy North American rules of origin, increasing congestion at our ports of entry, and regulatory differences among our three countries raise costs instead of reducing them. Trade in certain sectors—such as natural resources, agriculture, and energy—remains far from free, and disputes in these areas have been a source of disagreement among our countries. Furthermore, the NAFTA partners have been unable to resolve a number of important trade and investment disputes, which has created continuing tension in our commercial relationships.

Leaders in our three countries have acknowledged these challenges and discussed a wide range of responses during the 2005 Texas summit. Those involving changes in formal trade agreements will of necessity take time to negotiate and ratify. However, in other areas, notably regulatory cooperation and the expansion of transborder activities in

critical sectors such as transportation and financial services, there is a shared recognition that the three countries can and should act quickly in ways that would make a real difference in improving the competitiveness of firms and individuals in North America.

**Shared challenge of uneven economic development.** A fast lane to development is crucial for Mexico to contribute to the security of the entire region. Mexico's development has failed to prevent deep disparities between different regions of the country, and particularly between remote regions and those better connected to international markets. Northern states have grown ten times faster than those in the center and south of the country. Lack of economic opportunity encourages unauthorized migration and has been found to be associated with corruption, drug trafficking, violence, and human suffering. Improvements in human capital and physical infrastructure in Mexico, particularly in the center and south of the country, would knit these regions more firmly into the North American economy and are in the economic and security interest of all three countries.

Leaders in our three countries have acknowledged these problems and indicated their support for a number of promising measures, including immigration reform, but there remains considerable scope for more individual, bilateral, and joint efforts to address development needs.

### *What We Can Do*

In making its recommendations, the Task Force is guided by the following principles:

- The three governments should approach continental issues together with a trilateral perspective rather than the traditional “dual-bilateral” approach that has long characterized their relationships. Progress may proceed at two speeds in some spheres of policy. Canada and the United States, for example, already share a long history of military cooperation and binational defense institutions, and they should continue to deepen their bilateral alliance while opening the door to more extensive cooperation with Mexico. Yet many issues would be better addressed trilaterally. Shared concerns range from regional

economic growth to law enforcement, from energy security to regulatory policy, from dispute resolution to continental defense.

- North America is different from other regions of the world and must find its own cooperative route forward. A new North American community should rely more on the market and less on bureaucracy, more on pragmatic solutions to shared problems than on grand schemes of confederation or union, such as those in Europe. We must maintain respect for each other's national sovereignty.
- Our economic focus should be on the creation of a common economic space that expands economic opportunities for all people in the region, a space in which trade, capital, and people flow freely.
- The strategy needs to be integrated in its approach, recognizing the extent to which progress on each individual component enhances achievement of the others. Progress on security, for example, will allow a more **open border** for the movement of goods and people; progress on regulatory matters will **reduce the need for active customs** administration and release resources to boost security. North American solutions could ultimately serve as the basis for initiatives involving other like-minded countries, either in our hemisphere or more broadly.
- Finally, a North American strategy must provide real gains for all partners and must not be approached as a zero-sum exercise. Poverty and deprivation are breeding grounds for political instability and undermine both national and regional security. The progress of the poorest among us will be one measure of success.

# Recommendations

The recommendations of the Task Force fall into two broad categories that correspond with the imperative to build a safer and more prosperous continent. The Task Force also proposes reforms and institutions within each of the three governments to promote progress in these areas. The Task Force has framed its recommendations into shorter-term measures that should be pursued now, and long-term steps to be implemented by 2010.

## Making North America Safer

### *Security*

The threat of international terrorism originates for the most part outside North America. Our external borders are a critical line of defense against this threat. Any weakness in controlling access to North America from abroad reduces the security of the continent as a whole and exacerbates the pressure to intensify controls on intracontinental movement and traffic, which increases the transaction costs associated with trade and travel within North America.

September 11 highlighted the need for new approaches to border management. In December 2001, Canada and the United States signed the Smart Border Declaration and an associated 30-point Action Plan to secure border infrastructure, facilitate the secure movement of people and goods, and share information. A similar accord, the United States-Mexico Border Partnership Agreement, and its 22-point Action Plan,

were signed in March 2002. Both agreements included measures to facilitate faster border crossings for pre-approved travelers, develop and promote systems to identify dangerous people and goods, relieve congestion at borders, and revitalize cross-border cooperation mechanisms and information sharing. The three leaders pledged additional measures at their March 2005 summit meeting.

The defense of North America must also consist of a more intense level of cooperation among security personnel of the three countries, both within North America and beyond the physical boundaries of the continent. The Container Security Initiative, for example, launched by the United States in the wake of 9/11, involves the use of intelligence, analysis, and inspection of containers not at the border but at a growing number of overseas ports from which goods are shipped. The ultimate goal is to provide screening of all containers destined for any port in North America, so that once unloaded from ships, containers may cross land borders within the region without the need for further inspections.

#### WHAT WE SHOULD DO NOW

- **Establish a common security perimeter by 2010.** The governments of Canada, Mexico, and the United States should articulate as their long-term goal a common security perimeter for North America. In particular, the three governments should strive toward a situation in which a terrorist trying to penetrate our borders will have an equally hard time doing so, no matter which country he elects to enter first. We believe that these measures should be extended to include a commitment to common approaches toward international negotiations on the global movement of people, cargo, and vessels. Like free trade a decade ago, a common security perimeter for North America is an ambitious but achievable goal that will require specific policy, statutory, and procedural changes in all three nations.
- **Develop a North American Border Pass.** The three countries should develop a secure **North American Border Pass with biometric identifiers**. This document would allow its bearers expedited passage through customs, immigration, and airport security throughout the region. The program would be modeled on the U.S.-Canadian “NEXUS” and the U.S.-Mexican “SENTRI” programs, which

provide “smart cards” to allow swifter passage to those who pose no risk. Only those who voluntarily seek, receive, and pay the costs for a security clearance would obtain a Border Pass. The pass would be accepted at all border points within North America as a complement to, but not a replacement for, national identity documents or passports.

- **Develop a unified North American border action plan.** The closing of the borders following the 9/11 attacks awakened all three governments to the need for rethinking management of the borders. Intense negotiations produced the bilateral “Smart Borders” agreements. Although the two borders are different and may in certain instances require policies that need to be implemented at two speeds, cooperation by the three governments in the following areas would lead to a better result than a “dual-bilateral” approach:
  - Harmonize visa and asylum regulations, including convergence of the list of “visa waiver” countries;
  - Harmonize entry screening and tracking procedures for people, goods, and vessels (including integration of name-based and biometric watch lists);
  - Harmonize exit and export tracking procedures;
  - Fully share data about the exit and entry of foreign nationals; and
  - Jointly inspect container traffic entering North American ports, building on the Container Security Initiative.
- **Expand border infrastructure.** While trade has nearly tripled across both borders since the Canadian-U.S. Free Trade Agreement (FTA) and NAFTA were implemented, border customs facilities and crossing infrastructure have not kept pace with this increased demand. Even if 9/11 had not occurred, trade would be choked at the border. There have been significant new investments to speed processing along both the Canadian-U.S. and Mexican-U.S. borders, but not enough to keep up with burgeoning demand and additional security requirements. The three governments should examine the options for additional border facilities and expedite their construction. In addition to allowing for continued growth in the volume of

transborder traffic, such investments must incorporate the latest technology, and include facilities and procedures that move as much processing as possible away from the border.

#### WHAT WE SHOULD DO BY 2010

- **Lay the groundwork for the freer flow of people within North America.** The three governments should commit themselves to the long-term goal of dramatically diminishing the need for the current intensity of the governments' physical control of cross-border traffic, travel, and trade within North America. A long-term goal for a North American border action plan should be joint screening of travelers from third countries at their first point of entry into North America and the elimination of most controls over the temporary movement of these travelers within North America.

#### *Law Enforcement and Military Cooperation*

Security cooperation among the three countries should also extend to cooperation on counterterrorism and law enforcement, which would include the establishment of a trinational threat intelligence center, the development of trinational ballistics and explosives registration, and joint training for law enforcement officials.

As founding members of the North Atlantic Treaty Organization (NATO), Canada and the United States are close military allies. When Canadian troops hunt terrorists and support democracy in Afghanistan, or when Canadian ships lead patrols in the Persian Gulf, they engage in the "forward defense" of North America by attacking the bases of support for international terrorism around the world. Although Mexico is not a NATO member and does not share the same history of military cooperation, it has recently begun to consider closer collaboration on disaster relief and information-sharing about external threats. Defense cooperation, therefore, must proceed at two speeds toward a common goal. We propose that Mexico begin with confidence-building dialogue and information exchanges, moving gradually to further North American cooperation on issues such as joint threat assessment, peacekeeping operations, and eventually, a broader defense structure for the continent.

## WHAT WE SHOULD DO NOW

- **Expand NORAD into a multiservice Defense Command.** The North American Aerospace Defense Command (NORAD) has for decades been the primary vehicle for expression of the unique defense alliance between Canada and the United States. As recommended in a report of the Canadian-U.S. Joint Planning Group, **NORAD should evolve into a multiservice Defense Command that would expand** the principle of Canadian-U.S. joint command **to land and naval as well as air forces** engaged in defending the approaches to North America. In addition, Canada and the United States should reinforce other bilateral defense institutions, including the Permanent Joint Board on Defense and Joint Planning Group, and invite Mexico to send observers.
- **Increase information and intelligence-sharing at the local and national levels in both law enforcement and military organizations.** Law enforcement cooperation should be expanded from its current levels through the exchange of liaison teams and better use of automated systems for tracking, storing, and disseminating timely intelligence. This should be done immediately. In the area of military cooperation, collaboration can proceed more slowly, especially between U.S. and Mexican militaries. However, the ultimate goal needs to be the timely sharing of accurate information and intelligence and higher levels of cooperation.

The United States and Canada should invite Mexico to consider more extensive information-sharing and collaborative planning involving military organizations and law enforcement as a means to build mutual trust and pave the way for closer cooperation in the future. Training and exercises should be developed to increase the cooperation and interoperability among and between the law enforcement agencies and militaries. These steps will provide better capabilities for detection of threats, preventative action, crisis response, and consequence management. At least one major trilateral exercise conducted by law enforcement authorities and one by the militaries should be established as a goal over the next year. Of course, the

extent of cooperation will be affected by the progress of reform of the police forces, customs, and judicial branch in Mexico.

In addition to the sharing of information, a Joint Analysis Center should be established immediately to serve as a clearing house for information and development of products for supporting law enforcement and, as appropriate, military requirements.

### *Spread the Benefits of Economic Development*

NAFTA has transformed Mexico, but it has also deepened and made much more visible the divisions that exist in the country. Indeed, the northern part of Mexico, where the population has a higher level of education and is better connected to American and Canadian markets, has grown significantly faster than the center and the south.

NAFTA was designed to create new opportunities for trade and investment in Mexico and thus complement Mexican development programs. Officials hoped that Mexico would grow much faster than its more industrialized partners and begin to narrow the income gap among the three countries. However, investment has been modest, preventing Mexico from achieving higher levels of growth. Indeed, the Organization for Economic Cooperation and Development (OECD) estimated that, with significant levels of investment, Mexico's potential growth rate could reach 6 percent. But that requires big changes in current policies. For example, the World Bank estimated in 2000 that \$20 billion per year for a decade is needed for essential infrastructure and educational projects in Mexico.

The gap in wages has led many Mexicans to travel north in search of higher incomes and better opportunities. For the past three decades, Mexico has been the largest source of legal immigrants to the United States, and Mexican-Americans make increasingly valued and growing contributions to the life of the United States and, through remittances, to their families at home. Mexico is also the leading source of unauthorized migration, with attendant economic and security problems in both countries and untold hardships for Mexican migrants. Over time, the best way to diminish these problems is by promoting better economic opportunities in Mexico. Mexico also requires significant reforms in

its tax and energy policies so that it can use its own resources more effectively to advance its economic development.

#### WHAT WE SHOULD DO NOW

- **Intensify Mexican efforts to accelerate its economic development.** To achieve this objective, Mexico must reorient its economic policies to encourage more investment and to distribute the benefits of economic growth more equitably and efficiently across the country. Progress needs to be made, in particular, in the following areas: (1) dramatically expanding investment and productivity in the energy sector; (2) continuing efforts to enhance governmental transparency, build regulatory capacity, and deepen judicial reform; (3) improving public access to high-quality education; (4) promoting the development of basic infrastructure projects by state and municipal governments; (5) helping small and medium-sized producers take advantage of economic integration; (6) increasing the federal tax base as a percentage of gross domestic product; and (7) establishing clear and measurable objectives for public spending. Of course, it will be up to Mexicans to develop the policy conditions for these changes to take place.

All three countries need to acknowledge that a major regional effort is also necessary. To that end, Canada and the United States should build on their bilateral initiatives supporting Mexico's development, notably the U.S.-Mexico Partnership for Prosperity and the Canada-Mexico Partnership. In both programs, the private sector in all three countries is a partner in the development effort. Mexico should also be recognized as a priority within the international development programs of both the United States and Canada, and both should explore with the World Bank and the Inter-American Development Bank ways to use multilateral development funds most effectively to address the North American development challenge. Canada recently announced a major reform of its development assistance programs, doubling overall resources while focusing its efforts on a core group of countries. Mexico is not included in that new list and it should be.

- **Establish a North American investment fund for infrastructure and human capital.** With a more conducive investment climate in Mexico, private funds will be more accessible for infrastructure and development projects. The United States and Canada should establish a North American Investment Fund to encourage private capital flow into Mexico. The fund would focus on increasing and improving physical infrastructure linking the less developed parts of Mexico to markets in the north, improving primary and secondary education, and technical training in states and municipalities committed to transparency and institutional development. A relatively small amount of funds should be targeted for technical assistance for project design and evaluation, management, and training. If the North American Investment Fund is to be effective, it will need significant help from the United States and Canada, and counterpart funding through higher tax revenues from Mexico. The fund design should consider such issues as incentives and debt absorption and management capacity of subnational governments to ensure that resources are effectively used. The fund will need to be managed in a transparent manner according to best international practices, and should be capitalized through a diverse set of innovative financial mechanisms. Availability of credit enhancement mechanisms for long-term loans in pesos will be critical.
- **Enhance the capacity of the North American Development Bank (NADBank).** NADBank was conceived to support environmental infrastructure projects within 100 kilometers on both sides of the Mexican-U.S. border. After a slow start, NADBank has done important work over recent years, and its mandate has been expanded recently to cover 300 kilometers into Mexico. However, to achieve its full potential, the U.S. and Mexican governments should (1) expand NADBank's mandate to include other infrastructure sectors, particularly transportation; (2) permit it to access domestic capital markets and apply credit enhancement tools; (3) support the establishment of revolving funds through both grants and soft loans throughout its jurisdiction; and (4) strengthen its technical assistance programs to promote good governance and creditworthiness of communities and public utilities. Finally, NADBank's internal procedures and the

process of project certification should be reformed in order to allow for a significantly faster and more transparent deployment of funds.

### *Develop a North American Resource Strategy*

All three North American countries produce substantial amounts of energy, but the region as a whole is a net importer of energy. Washington's two neighbors are its biggest suppliers of energy. The production of oil and natural gas on the continent is not keeping up with the growth in demand.

Although North American production of oil and gas has been declining, both Canada and Mexico have the potential to develop growing supplies both for their own direct use and for export. These two countries, however, have distinct approaches to the development of energy and other natural resources that must be taken into account in the process of mapping the best path forward for North America.

Canada is committed to efficient energy markets, open investment, and free trade in this sector. Canada's vast oilsands, once a high-cost experimental means of extracting oil, now provide a viable new source of energy that is attracting a steady stream of multibillion dollar investments and interest from countries such as China, and they have catapulted Canada into second place in the world in terms of proved oil reserves. Production from oilsands fields is projected to reach 2 million barrels per day by 2010. The most serious constraints on additional growth are the limited supply of skilled people and the shortage of infrastructure, including housing, transportation links, and pipeline capacity. Another constraint is regulatory approval processes that can slow down both resource and infrastructure development significantly.

Mexico is also a major energy supplier and customer within North America. In 2004, it was the second-largest exporter of oil to the United States; in previous years, it was consistently among the top four suppliers. Mexico relies for a significant share of its revenues on the state oil producer (Pemex). It has major oil and gas reserves, but these are relatively untapped. Development has been hampered by constitutional restrictions on ownership, which are driven by an understandable desire to see this strategic asset used for the benefit of Mexicans. This restriction on investment, coupled with the inefficient management of the state monopoly, Pemex, has contributed to low productivity. As a result,

Mexico has expensive and unreliable supplies of energy for its consumers and industries. Mexico has begun to bring in some foreign capital through multiple service contracts, but the most serious constraints on its future growth as an energy supplier are the restrictions that impede development of its own energy resources and the low productivity of Pemex. Reforms in this area are needed urgently.

Although energy security represents perhaps the most critical challenge, it is important to recognize that trade in other natural resources, including metals, minerals, wood, and other products, is also central to the growth and economic security of North America. In these other resource sectors, NAFTA has not succeeded in ensuring a free flow of goods. Resource and agricultural products such as softwood lumber, fish, beef, wheat, and sugar have been the flashpoints for highly visible trade disputes. The softwood lumber case has led some Canadians to question whether the United States will comply with NAFTA if decisions by the dispute-settlement mechanism run counter to private American interests. The United States and Mexico have failed to comply with free trade provisions on movement of trucks for more than a decade, and the failure to resolve the softwood lumber case between Canada and the United States has plagued their trade relations for the past quarter century. Changing some trade rules and the dispute-settlement process may reduce this friction, as would a determined effort to reduce unnecessary regulatory differences within North America.

North America is blessed with an abundant resource base. Exploiting these resources on a long-term, sustainable basis requires that the three governments work together to resolve issues and ensure responsible use of scarce resources and the free flow of both resources and capital across all three borders. As noted, the most troubled areas of cross-border trade over the past twenty years have been in resource trade, largely because of the impact of regulatory differences, including different approaches to resource pricing and income protection. Efforts to eliminate these problems on the basis of dispute-settlement mechanisms have not worked as well as anticipated.

#### WHAT WE SHOULD DO NOW

- **Develop a North American energy strategy.** Recognizing their individual policies and priorities, the three governments need to

work together to ensure energy security for people in all three countries. Issues to be addressed include the expansion and protection of the North American energy infrastructure; development opportunities and regulatory barriers; and the technological and human capital constraints on accelerated development of energy resources within North America. These objectives form part of the agenda of the North American Energy Working Group established in 2001 by the leaders of the three countries and emphasized in their 2005 summit meeting. This initiative, however, has so far made only modest progress toward developing a North American strategy, and it does not cover oil.

- **Fully develop Mexican energy resources.** Although the inclination of Mexico to retain full ownership of its strategic resources is understandable, expanded and more efficient development of these resources is needed to accelerate Mexico's economic growth. Mexico is quickly losing ground in its energy independence, and the only way to satisfy growing demands within Mexico is to find ways to unlock its energy sector. Progress can be made even under the existing constitutional constraints. As discussed above, Canada and the United States could make important contributions in this effort through the development of creative mechanisms, especially financial, that bring needed technology and capital to Mexico. The most important steps, however, must be taken in Mexico by Mexicans.
- **Conclude a North American resource accord.** In order to ensure the fullest development of North America's mineral, forest, and agricultural resources, investors in one country need to be confident that they will not be harassed by competitors in another. To that end, the three governments need to conclude an accord that recognizes the balance between security of supply and security of access and includes rules about resource pricing that will reduce the friction that has given rise to some of the most persistent and difficult bilateral irritants. A resource accord should also address the remaining barriers to trade in agricultural products, including barriers that arise from the different regimes in the three countries, to guarantee prices and incomes.

## WHAT WE SHOULD DO BY 2010

- **Make a North American commitment to a cleaner environment.** Expanding energy production as a driver of a more competitive and growing North American economy brings with it a joint responsibility for shaping a cleaner environment and reducing pollution. For example, Canada has signed the Kyoto Protocol on global climate change, which requires significant reductions in emissions of greenhouse gases, but that agreement does not cover Mexico, and Washington has opted out. **A North American energy and emissions regime could offer a regional alternative to Kyoto** that includes all three countries. Such a regime should include a tradable voucher system for emissions trading within the region analogous to the Clean Development Mechanism.
- **Expand trilateral collaboration on conservation and innovation.** The development of new technologies and conservation strategies is essential both to reduce pollution and to make the most of North America's resource strengths. Currently, the North American Energy Working Group addresses only a limited number of energy-related opportunities for collaboration. Future initiatives should focus on development of desalination technologies, alternative energy sources, cleaner burning fuels, and more fuel-efficient passenger vehicles.

## Creating a North American Economic Space

The signing of NAFTA ushered in a new era of expanded opportunities for trade and investment across North America. The Canada-United States Free Trade Agreement was the foundation stone for NAFTA, providing the concept, framework, and substance for the subsequent trilateral agreement. NAFTA eliminated, not merely reduced, tariffs on all industrial goods and in most cases did so in less than a decade. It guaranteed unrestricted agricultural trade within fifteen years between Mexico and the United States—the first trade agreement to remove all such barriers. It opened trade across a broad range of services and provided the highest standard of protection in the world for intellectual property. It set clear rules to protect investors and created a framework

that encourages transparency, respect for property, and adherence to the rule of law.

Since this agreement entered into force, trade among the three countries has more than doubled in value, and intraregional investment has grown even faster. Mexico's exports have climbed more than 250 percent, and Canada's have more than doubled. Canada, by itself, has become the largest customer of thirty-nine American states. Mexico is the first or second largest customer of twenty-two states, and the second largest overall. North America is now the largest free trade area in the world.

NAFTA allowed duty-free access within the region, but because of different rates charged by each country on imports from other countries, it required cumbersome proof of North American origin in order to qualify for NAFTA access. These rules can raise transaction costs to the point that some shippers choose to pay the multilateral tariff rate instead. In addition, although the dispute-resolution mechanisms provided by NAFTA have proven a reliable means for resolving most trade disputes, they have been incapable of dealing with important and controversial problems regarding softwood lumber, sugar, and a few other products.

In short, important work remains to be done in creating a common economic zone through the elimination of remaining tariff and nontariff barriers to trade within North America. The three countries must also expand cooperation on trade-related areas, including border and transportation infrastructure; a concerted effort to reduce the many regulatory gaps and inconsistencies that hamper the flow of trade in North America; and coordinated investment in North America's human capital, both through education and training, and through improved labor mobility within the continent.

North American governments have taken the innovative step of creating the North American Steel and Trade Committee (NASTC). The NASTC is based on government-industry cooperation and focused on developing common positions to address the common challenges faced by the North American steel industry. It reflects the high degree of cooperation among governments and industry; the substantial benefits that come from common and coordinated North American-wide

positions in matters affecting international steel trade; recognition that developments in one market affect the steel markets in NAFTA partner countries; and the belief that economic success is best served by working together. The NASTC has been effective in establishing common NAFTA government and industry positions in international trade negotiations. The NASTC also serves to ensure common government-industry understanding of steel market developments, including developments in other countries that could affect North American markets, and to coordinate NAFTA governments and industry actions on matters of common concern. The close, cooperative working relationships among the North American steel industries, and between the industries and governments, provides a model for other sectors.

To create a North American economic space that provides new opportunities for individuals in all three countries, the Task Force makes the following recommendations aimed at establishing a seamless North American market, adopting a North American approach to regulation, increasing labor mobility, and enhancing support for North American education programs.

### *Establish a Seamless North American Market for Trade*

With tariff barriers virtually eliminated, and the outlines of a North American economy visible, the time has come to take a more comprehensive approach to strengthening the economic prospects for citizens in all three countries. The first step is to encourage convergence in the most-favored-nation tariff rates each partner charges on imports from outside North America. Next, the governments should reduce the remaining nontariff barriers to the flow of goods and services, and address problems arising from charges of price discrimination and subsidization by competitors in North America. Finally, they should coordinate their approach to unfair trade practices by foreign suppliers to the North American market. **The ultimate goal should be to create a seamless market for suppliers and consumers throughout North America.**

The specific recommendations set out below **will require that the three governments move beyond the confines of current legislative and regulatory frameworks** and tackle the remaining elements of the free

trade project to which they committed in the FTA and NAFTA. It will also mean that they will have to deal creatively with difficult issues such as different approaches to trade with third countries and the conflicting patterns of free trade agreements negotiated over the past decade. Modern technologies and deepening patterns of industrial production make it both possible and rewarding to explore this next stage of facilitating free trade.

These goals will not only deepen and strengthen the economy in North America, they should also enhance the region's security. If border officials do not need to inspect the origins of the products crossing the border and worry less about other routine customs matters, they will be able to concentrate more resources on preventing the dangerous or illicit entry of people and goods from beyond North America.

#### WHAT WE SHOULD DO NOW

- **Adopt a common external tariff.** We recommend that the three governments harmonize external tariffs on a sector-by-sector basis, to the lowest prevailing rate consistent with multilateral obligations. The effort should begin with goods on which current tariff rates are closest and then proceed to close larger gaps, with the goal of adopting a common external tariff, thus eliminating the need for rules of origin and further facilitating integration and better use of scarce resources.
- **Review those sectors of NAFTA that were excluded or those aspects that have not been fully implemented.** Each of the three countries decided to exclude unilaterally certain sectors and issues from NAFTA. Some of these remain sensitive issues; others may be ripe for review. In addition, several elements have not been implemented in the way that all had anticipated. Some changes—for example, the negotiation of a sanitary agreement to promote agricultural trade, or expanding the NAFTA services agreement to include cabotage—would be useful but also difficult. We recommend a high-level review to examine all of these issues and make recommendations on how to make the coverage of NAFTA more comprehensive.

- **Establish a permanent tribunal for North American dispute resolution.** The current NAFTA dispute-resolution process is founded on ad hoc panels that are not capable of building institutional memory or establishing precedent, may be subject to conflicts of interest, and are appointed by authorities who may have an incentive to delay a given proceeding. As demonstrated by the efficiency of the World Trade Organization (WTO) appeal process, a permanent tribunal would likely encourage faster, more consistent, and more predictable resolution of disputes. In addition, there is a need to review the workings of NAFTA's dispute-settlement mechanism to make it more efficient, transparent, and effective.
- **Establish a joint approach to unfair trade practices.** The use of countervailing and anti-dumping duties by one North American country against another has generated considerable ill will, though there has been a steady decline in the use of these trade remedies; there have been few new cases in the industrial sectors, with the most difficult cases now limited to resource and agricultural trade. The time has come to adopt a unified approach to deal with the internal and the external challenge of unfair trade practices, beginning with phased suspensions in sectors of laws governing unfair trade practices.

#### WHAT WE SHOULD DO BY 2010

- **Establish a trinational competition commission.** Once the three governments have concluded the resource accord described above and phased in the suspension of antidumping and countervailing duty proceedings for all sectors, they should also establish a trinational commission—a continental anti-trust agency—to address harmful subsidy practices, to promote healthy competition, and to protect against predatory pricing. At the same time, they should develop shared standards for identifying and responding collectively to unfair trade practices by parties outside North America.

#### *Adopt a North American Approach to Regulation*

Significant regulatory differences continue to divide the North American economic space. As other barriers to trade, such as tariffs, fall

worldwide, regulatory efficiency is becoming increasingly important as a source of competitive advantage. Canada, the United States, and Mexico each have developed rules to protect their environment and the well-being of their citizens. All three share the same broad objectives, but their actual rules have evolved largely in isolation. In many cases, the result is what has been labeled “the tyranny of small differences,” one that imposes large economic costs even when regulatory goals, processes, standards, and outcomes are quite similar.

The most obvious costs of unnecessary regulatory differences are borne by businesses and consumers. Rules that fragment the North American market reduce economies of scale and discourage specialization, competition, and innovation. Harmonization of regulation, in effect, creates a bigger market, one that would lead to more competitive exports and lower consumer prices across North America.

In addition to raising compliance costs for businesses and their customers, fragmented regulation increases the administrative costs to governments and taxpayers. Regulators in Canada and Mexico each must try to achieve the same results as their counterparts in the United States and yet must do so with only a fraction of the resources. Furthermore, because much of the resulting administrative work is carried out at border points, regulatory differences are particularly damaging in their impact on border delays and congestion, as the volume of trade within North America exceeds the capacity of its border infrastructure.

Finally, regulatory differences can have a negative impact on the very environmental and health outcomes the regulations themselves are supposed to encourage. Unnecessary delays in the approval for sale and distribution of innovative products can prevent timely access to new pharmaceuticals or medical technology that might save lives, or to new fertilizers or chemicals that could help industrial plants and farmers do a better job of protecting the environment.

A collaborative approach to regulatory reform could help all three countries expand economic opportunity within North America while strengthening the protection of the environment, health and safety, and other shared objectives of regulatory policy. While each country must retain its right to impose and maintain unique regulations consonant with its national priorities and income level, the three countries should make a concerted effort to encourage regulatory convergence.

The three leaders highlighted the importance of addressing this issue at their March 2005 summit in Texas. The Security and Prosperity Partnership for North America they signed recognizes the need for a stronger focus on building the economic strength of the continent in addition to ensuring its security. To this end, it emphasizes regulatory issues. Officials in all three countries have formed a series of working groups under designated lead cabinet ministers. These working groups have been ordered to produce an action plan for approval by the leaders within ninety days, by late June 2005, and to report regularly thereafter.

We welcome the initiative of the three leaders and urge them to give this issue the resources and attention that it deserves. Our own research and discussion underlined the extent to which progress in developing a North American regulatory approach is key to addressing problems of border infrastructure, creating a seamless North American market, resolving resource trade issues, and building mutual confidence as security partners. In order to demonstrate the benefits of developing a North American regulatory approach, we offer three recommendations for early action:

#### WHAT WE SHOULD DO NOW

- **Ensure rapid implementation of the North American regulatory action plan.** Businesses and other stakeholders must work closely with governments in all three countries to identify opportunities for early action in individual sectors and longer-term process issues whose resolution could have a major impact in improving North American competitiveness and enhancing the protection of people and the environment. To speed the process, governments in all three countries should place early emphasis on quantifying both the costs associated with regulatory differences and the potential benefits that would be achieved through various forms of regulatory convergence, including harmonization at the highest prevailing standard, mutual recognition, reciprocal recognition (in the area of licensing), interoperability, collaborative development of new standards, and unilateral adoption of another country's rules.
- **Agree on priority sectors for early action.** While all sectors of the economy will offer opportunities for greater regulatory convergence as the development gap closes, early action is needed in sectors

where current costs are large and in sectors that have key roles in facilitating economic integration. The Task Force sees three sectors as immediate priorities in the context of increasing North American competitiveness:

- **Open skies and open roads.** The efficiency of the transportation network is critical to making North America a more competitive place to invest and to produce, and in spreading the benefits of economic growth to all corners of the continent. Among other regulatory reforms, governments should consider the benefits of allowing North American transportation firms unlimited access to each others' territory, including provision for **full cabotage** (trade between two points within a country; for example, a Canadian trucker hauling freight from Chicago to Los Angeles or an American airline carrying passengers between Mexico City and Monterrey) for airlines and surface carriers.
- **“Tested once” for biotechnology and pharmaceuticals.** The cost and quality of health care is a critical issue in all three countries. Biotechnology and pharmaceuticals play a vital role in providing new treatments that improve health outcomes and often reduce costs as well, but they face huge costs in developing and then winning regulatory approval for new products. Preliminary research suggests that regulatory cooperation in the areas of human and veterinary drugs, medical devices, pest control, and chemicals would raise the value of sales in these sectors by more than 10 percent, profits by 8 percent, and the rate of return on new products by an average of 4.8 percent. Two possible approaches to reducing the regulatory burden while maintaining rigorous standards to protect health and safety would be to adopt a **“tested once”** principle by which a product tested in one country would meet the standards set by another, or to establish a North America testing center with personnel from each country.
- **Integrating protection of food, health, and the environment.** The North American market for agricultural and food products is highly integrated, and the intense disruption of this market by just two cases of mad cow disease demonstrates the need to ensure that regulatory processes are as integrated as their

relevant markets. Greater North American cooperation also is essential in providing effective responses to threats to human and animal health and to the environment.

- **Make a North American standard the default approach to new regulation.** While pursuing an aggressive effort to eliminate existing regulatory differences as quickly as possible, it also is important for regulators to consider the North American dimension as they draft new rules going forward. To this end, the Security and Prosperity Partnership framework should be used to establish a new mechanism to enable greater collaboration and consultation among the three countries at all levels of government as new rules are developed and adopted. Each jurisdiction would retain the sovereign right to shape rules within its borders, but in principle, country-specific regulations should only be adopted when no international or North American approach already exists, where there are unique national circumstances or priorities, or where there is a well-founded lack of trust in the regulatory practices of the other partners. The new trilateral mechanism also should be charged with identifying joint means of ensuring consistent enforcement of new rules as they are developed.

### *Increase Labor Mobility within North America*

People are North America's greatest asset. Goods and services cross borders easily; ensuring the legal transit of North American workers has been more difficult. Experience with the NAFTA visa system suggests that its procedures need to be simplified, and such visas should be made available to a wider range of occupations and to additional categories of individuals such as students, professors, bona fide frequent visitors, and retirees.

To make the most of the impressive pool of skill and talent within North America, the three countries should look beyond the NAFTA visa system. The large volume of undocumented migrants from Mexico within the United States is an urgent matter for those two countries to address. A long-term goal should be to create a "North American preference" new rules that would make it much easier for employees to move and for employers to recruit across national boundaries within the continent. This would enhance North American competitiveness,

increase productivity, contribute to Mexico's development, and address one of the main outstanding issues on the Mexican-U.S. bilateral agenda.

Canada and the United States should consider **eliminating restrictions on labor mobility altogether** and work toward solutions that, in the long run, could enable the extension of full labor mobility to Mexico as well.

#### WHAT WE SHOULD DO NOW

- **Expand temporary migrant worker programs.** Canada and the United States should expand programs for temporary labor migration from Mexico. For instance, Canada's successful model for managing seasonal migration in the agricultural sector should be expanded to other sectors where Canadian producers face a shortage of workers and Mexico may have a surplus of workers with appropriate skills. Canadian and U.S. retirees living in Mexico should be granted working permits in certain fields, for instance as English teachers.
- **Implement the Social Security Totalization Agreement negotiated between the United States and Mexico.** This agreement would recognize payroll contributions to each other's systems, thus preventing double taxation.

#### WHAT WE SHOULD DO BY 2010

- **Create a "North American preference."** Canada, the United States, and Mexico should agree on streamlined immigration and labor mobility rules that enable citizens of all three countries to work elsewhere in North America with far fewer restrictions than immigrants from other countries. This new system should be both broader and simpler than the current system of NAFTA visas. Special immigration status should be given to teachers, faculty, and students in the region.
- **Move to full labor mobility between Canada and the United States.** To make companies based in North America as competitive as possible in the global economy, Canada and the United States should consider eliminating all remaining barriers to the ability of their citizens to live and work in the other country. This free flow

of people would offer an important advantage to employers in both countries by giving them rapid access to a larger pool of skilled labor, and would enhance the well-being of individuals in both countries by enabling them to move quickly to where their skills are needed. In the long term, the two countries should work to extend this policy to Mexico as well, though doing so will not be practical until **wage differentials** between Mexico and its two North American neighbors have diminished considerably.

- **Mutual recognition of professional standards and degrees.** Professional associations in each of the three countries make decisions on the standards to accept professionals from other countries. But despite the fact that NAFTA already encourages the mutual recognition of professional degrees, little has actually been done. The three governments should devote more resources to leading and creating incentives that would encourage the professional associations of each of the three countries to develop shared standards that would facilitate short-term professional labor mobility within North America.

### *Support a North American Education Program*

Given their historical, cultural, geographic, political, and economic ties, the countries of North America should have the largest and most vibrant educational exchange network in the world. Currently, we do not.

Despite the fact that Mexico is the second-largest trading partner of the United States, it ranks only seventh in sending students there. In 2004, only 13,000 Mexican undergraduate and graduate students attended U.S. universities. Similarly, Canada is the largest trading partner of the United States but ranked only fifth in educational exchanges, with 27,000 students in the United States compared to 80,000 students from India, followed by China, South Korea, and Japan. The number of Mexicans studying in Canada remains very low—about 1,000. And although American students study all over the world, relatively few go to Mexico and Canada. These numbers should be expanded dramatically to deepen familiarity and increase knowledge in each country.

## WHAT WE SHOULD DO NOW

- **Create a major scholarship fund for undergraduate and graduate students to study in the other North American countries and to learn the region's three languages.** For many students, study abroad is possible only with financial assistance, but many scholarships, including the Fund for the Improvement of Post-Secondary Education (FIPSE), which has supported scholarships to and from all three North American countries, have been reduced or halted. Cross-border educational study within North America by Canadians, Americans, and Mexicans should expand to reflect the degree of our commercial exchanges. To illustrate the scale of this proposal, it would lead to some 60,000 Mexican students studying in the United States and Canada, and comparable numbers of Canadian and American students studying in another North American country. We urge that state, provincial, and federal governments begin funding such scholarships now. One possible approach would be to expand existing Fulbright programs. The scholarships should include “language immersion” courses in each of the three countries, in Spanish, French, and English, and should encourage students to study in all three countries.
- **Develop a network of centers for North American studies.** The European Union (EU) provides substantial funding for EU centers in fifteen universities in the United States, as well as twelve Jean Monnet Chairs. The U.S. Department of Education provides similar grants to support language and international studies outside North America, but not within North America. That should change.

We recommend that the three governments open a competition and provide grants to universities in each of the three countries to promote courses, education, and research on North America and assist elementary and secondary schools in teaching about North America. They could also administer scholarship programs. To support this effort, a student summit should be held periodically in each of the three countries.
- **Promote Internet-based learning within North America.** A natural way to channel communication between Canada, the United

States, and Mexico would be through Internet-based learning tools. Current examples include the Historica Foundation's YouthLinks program in Canada, which enables high-school students to connect with their counterparts in other regions of Canada and around the world, and the School Connectivity Program (SCP) launched by the U.S. Department of State, which installs computers with Internet access in schools across nations that lack access to computer technology. The SCP program should be extended to Mexico and Canada.

- **Develop teacher exchange and training programs for elementary and secondary school teachers.** This would assist in removing language barriers and give some students a greater sense of a North American identity. Greater efforts should also be made to recruit Mexican language teachers to teach Spanish in the United States and Canada.
- **Develop “sister school” and student exchange programs.** Studying or living in another country or hosting a foreign-exchange student fosters cultural understanding. We recommend that states and municipalities encourage the development of “sister school” programs at both the secondary and university levels to include the annual exchange of students between participating schools.
- **Encourage imaginative ways to build North American connections.** Foundations and research institutes can shape the way public and private institutions engage in a new concept such as a North American community. We encourage foundations and research institutes to provide support and research for addressing continental issues and developing curricula that would permit citizens of our three countries to look at each other in different ways than in the past.

## **From Vision to Action: Institutions to Guide Trinational Relations**

Effective progress will require new institutional structures and arrangements to drive the agenda and manage the deeper relationships that result.

Canada, the United States, and Mexico already share a rich network of institutional links. A recent Canadian government study identified

343 formal treaties and thousands of informal arrangements or “light institutions” with the United States alone. Mexico has more than 200 formal treaties and agreements with the United States. There are many fewer arrangements between Canada and Mexico, but the network of contacts is still substantial and growing.

What is needed now is a limited number of new institutions to provide existing arrangements with greater energy and direction. To this end, the Task Force recommends the following institutional changes, which complement each other:

#### WHAT WE SHOULD DO NOW

- **An annual North American summit meeting.** There is no more succinct or forceful way to demonstrate to the people of all three countries the importance of the North American partnership than to have the Mexican and American presidents and the Canadian prime minister meet at least once a year.
- **Strengthen government structures.** To ensure that the summit meetings achieve their full potential, each government must take steps to reinforce the ability of its internal structures to deal effectively and imaginatively with North American issues. Steps should include strengthening links between governments, as the three leaders did at their March meeting in Texas, by establishing minister-led working groups that will be required to report back within ninety days, and to meet regularly.
- **A North American Advisory Council.** To ensure a regular injection of creative energy into the various efforts related to North American integration, the three governments should appoint an independent body of advisers. This body should be composed of eminent persons from outside government, appointed to staggered multiyear terms to ensure their independence. Their mandate would be to engage in creative exploration of new ideas from a North American perspective and to provide a public voice for North America. A complementary approach would be to establish private bodies that would meet regularly or annually to buttress North American relationships, along the lines of the Bilderberg or Wehrkunde conferences, organized to support transatlantic relations.

- **A North American Inter-Parliamentary Group.** The U.S. Congress plays a key role in American policy toward Canada and Mexico, and conducts annual meetings with counterparts in Mexico and in Canada. There is currently no North American program. Bilateral inter-parliamentary exchanges can suffer from limited participation, especially by the most influential legislators. The Task Force recommends that the bilateral meetings occur every other year and that the three North American partners form a trinational inter-parliamentary group to meet in the alternating year. The North American Advisory Council could provide an agenda and support for these meetings. To engage senior members of the parliaments, cabinet members could participate when the agenda matched their area of responsibility.

## Conclusion

The global challenges faced by North America cannot be met solely through unilateral or bilateral efforts or existing patterns of cooperation. They require deepened cooperation based on the principle, affirmed in the March 2005 joint statement by Canada, Mexico, and the United States, that “our security and prosperity are mutually dependent and complementary.”

Establishment by 2010 of a security and economic community for North America is an ambitious but achievable goal that is consistent with this principle and, more important, buttresses the goals and values of the citizens of North America, who share a desire for safe and secure societies, economic opportunity and prosperity, and strong democratic institutions.

## Additional and Dissenting Views

There is much in this report that should command support, especially the goal of a North American community that includes a fully developed Mexico. I was particularly honored that the Task Force asked me to prepare a paper on education, most of which was endorsed. But there are some key points on which I dissent. States sometimes give up individual sovereignty in favor of a common or joint approach because that is the best way to solve a problem. But, in the trade-offs the benefits must outweigh the costs. I am not persuaded that the benefits of a common security perimeter are worth the risks in harmonizing visa and asylum regulations. Problems in the **Arar** case, for example, show the dangers. On the environment, the North Dakota **water diversion project** threatens its Manitoba neighbor and ignores the 1909 Water Boundaries Treaty. The commitment to a cleaner North American environment must be stronger and certainly cannot wait until 2010. Finally, I do not agree with reviewing those sections of NAFTA that were initially excluded: cultural protection and a prohibition of **bulk water exports** should remain within national, not joint, jurisdiction.

*Thomas S. Axworthy*

I support the Task Force report and its recommendations aimed at building a safer and more prosperous North America. Economic prosperity and a world safe from terrorism and other security threats are no doubt inextricably linked. While governments play an invaluable

role in both regards, we must emphasize the imperative that economic investment be led and perpetuated by the private sector. There is no force proven like the market for aligning incentives, sourcing capital, and producing results like financial markets and profit-making businesses. This is simply necessary to sustain a higher living standard for the poorest among us—truly the measure of our success. As such, investment funds and financing mechanisms should be deemed attractive instruments by those committing the capital and should only be developed in conjunction with market participants.

*Heidi S. Cruz*

For worthy reasons of organization, one of the most important recommendations in the Task Force report appears in the final pages: the call for an annual summit of North American leaders. I write separately to highlight the importance of this recommendation.

An annual summit of North American leaders would do more to carry out our overall goal of creating a North American community than virtually any of the report's other recommendations. As we have seen with the annual Group of Seven/Eight (G-7/8) and Asia-Pacific Economic Cooperation (APEC) summits, regular meetings of leaders not only help promote a sense of community and shared objectives, but channel the various bureaucracies each year to work on those common objectives. Whether on matters of security, education, or economic integration and development, annual summits will drive a process that will hasten the goals that we outline in our report. More to the point, an annual summit can be announced and implemented right away, giving tangible impetus to the good beginning made at the March 2005 summit and to the goals we promote here.

*Nelson W. Cunningham*

joined by

*Wendy K. Dobson*

The Task Force has done an excellent job putting together a superb report; however, I would like to add two clarifications:

The report should call for Canada, Mexico, and the United States to have a common most-favored-nation import tariff and not a common external tariff. Each of the countries has negotiated a large network of free trade agreements that make it impossible to have a common external tariff. I would happily endorse as an objective the only common external tariff possible: zero duties for all goods on a most-favored-nation basis.

I understand the desire to have a permanent tribunal for dispute resolution, but it is unnecessary for trade disputes. Rather, I support the Task Force call for an improvement of NAFTA's dispute resolution mechanism to avoid the current interference on panelist selection for political reasons.

*Luis de la Calle Pardo*

I support the consensus recommendations contained within this Task Force report. If implemented, the recommendations would improve the prosperity and the security of the three countries. I note that the report's economic recommendations are considerably more extensive than its security recommendations. While this imbalance is understandable given the consensus nature of the report, I believe the three countries should intensify their cooperation across an even broader range of national and homeland security issues, including: law enforcement; intelligence; transportation security; critical infrastructure protection; defense against biological, chemical, radiological, nuclear, and ballistic missile threats; and incident management. As the three governments consider this report and reflect on how best to proceed toward a more secure and prosperous North America, I urge a tight linkage between implementation of the economic agenda described herein and implementation of an intensified security agenda. Because the United States has relatively less to gain from trilateral economic reform, and relatively more to gain from trilateral security reform, the U.S. government in particular should insist on no less than parity between the economic and security agendas.

*Richard A. Falkenrath*

I concur with Richard Falkenrath's emphasis on the importance of the linkage between economic and security matters.

*Allan Gotlieb*

North American integration must work for the average citizen. When adequate public policies are in place to foster economic and social cohesion, increased trade and investment flows will only improve the living standard of the majority of the population.

Economic and social cohesion in Mexico is in the interest of North American integration, because it will result in an expansion of the domestic market and it will reduce the flows of undocumented northward migration, thus enhancing security in Mexico, the United States, and Canada.

Reforms to reduce poverty and inequality in Mexico must start from within. Mexico must focus on achieving universal primary education; promoting gender equality and empowering women; building integrated infrastructure networks and water and sanitation facilities; applying science, technology, and innovation for development; and promoting environmental sustainability. As many Mexicans have claimed, building up the tax revenue base, along with beefing up the country's antitrust agency and its regulatory capacity, are essential to increase competitiveness. The government needs to build the infrastructure—human, physical, and institutional—for ordinary people to take advantage of North American integration.

Economic and social citizenship in North America implies the ability of citizens to exert pressure for the implementation of an inclusive economic policy at home and to be engaged in the international economy. To the extent that citizens of the three partner countries see that North American integration brings concrete benefits, a new constituency will be galvanized to support these efforts in the years to come.

*Carlos Heredia*

This Task Force report is well done and highly constructive, offering a number of important and valuable suggestions that will strengthen prosperity, security, and good governance throughout the region. I have differences regarding timing relative to two of its recommendations.

First, with respect to a North American Investment Fund that the Task Force recommends be established *now* as a means to improve Mexico's infrastructure and education, I believe that we should create the fund only *after* Mexico has adopted the policies recommended by the Task Force as necessary to improve Mexico's economic development. Any development fund should reinforce efforts that Mexico undertakes to further its own economic development and should not be established in advance of those efforts.

Second, although I strongly support the recommendation that the three governments coordinate their approach regarding unfair trade practices, I would appoint the recommended Trilateral Competition Commission *now* (not in 2010) and assign to it the responsibility of deciding how best to achieve a unified approach to unfair trade, externally and internally. Phased suspensions constitute one approach, but the commission will also need to consider rules to apply in the event that subsidies are granted by a government outside North America or by a local, state, or central government inside North America.

*Carla A. Hills*  
joined by  
*Wendy K. Dobson,*  
*Allan Gotlieb,*  
*Gary C. Hufbauer, and*  
*Jeffrey J. Schott*

This report attempts to make recommendations that are both pragmatic for and implementable by the parties. As institutions are addressed, the first pragmatic step to be taken is to use, support, and energize existing institutions. The North American Commission on Environmental Cooperation is such a body. Broadly mandated on trade and environmental issues, it provides for original public participation means and

mechanisms. It should get better attention from the three governments as well as more serious financial support.

*Pierre Marc Johnson*

I strongly endorse the Task Force's findings, and I agree with most of the specific recommendations contained in this report. At the same time, I am concerned that the report pays too little attention to how the costs of regional integration might be alleviated and how the benefits of integration might be more equitably distributed. As a result, the Task Force appears to be proposing a form of integration that will generate large numbers of losers as well as winners.

For instance, the report does not mention the need for compensatory or remedial social policies by any of the three governments, especially Canada and the United States. Much less does it suggest any trilateral mechanism to assist those harmed by economic integration. **Instead, the report appears to accept the assumption that economic integration always benefits average people.** This assumption must be tempered by an understanding of how integration often plays out in the real world. For instance, there are economies of scale in international trade, which **advantage large firms over smaller** producers. In this context, policies to assist small business—among other remedial measures—deserve greater consideration.

The community advocated by the Task Force has much to recommend it, but it is not the only North American community that could be created. Ultimately, the appeal and success of regional integration will depend on how well a deeper North American partnership actually ~~serves the interests of average citizens~~ in all three countries.

*Chappell H. Lawson*

I endorse the Task Force report with the exception of the sections on migration and security. With regard to energy, I believe that any

discussion of this topic must take into account the sovereign right of each nation to define its own strategy.

*Beatriz Paredes*

This report articulates a vision and offers specific ideas for deepening North American integration. I endorse it with enthusiasm, but would add two ideas to galvanize the effort and secure its implementation: a customs union and U.S. government reorganization.

The report recommends that the three governments negotiate a common external tariff on a sector-by-sector basis, but some sectors will prevent closure, leaving untouched the cumbersome rules of origin. Paradoxically, but as occurred with NAFTA, a bolder goal is more likely to succeed than a timid one. **We should negotiate a customs union within five years.** That alone will eliminate rules of origin. This will not be easy, but it will not be harder than NAFTA, and mobilizing support for a customs union will invigorate the entire North American project.

North American integration has subtly created a domestic agenda that is continental in scope. The U.S. government is not organized to address this agenda imaginatively. Facing difficult trade-offs between private and North American interests, we tend to choose the private, parochial option. This explains the frustration of Canada and Mexico. To remedy this chronic problem, President Bush should appoint a special assistant on North American Affairs to chair a Cabinet committee to recommend ways to breathe life into a North American community. A presidential directive should support this by instructing the Cabinet to give preference to North America.

***Robert A. Pastor***

## Task Force Members

**Pedro Aspe** is Chief Executive Officer of Protego, a leading investment banking advisory firm in Mexico. Mr. Aspe was most recently the Secretary of the Treasury of Mexico (1988–94). He has been a Professor of Economics at Instituto Tecnológico Autónomo de México (ITAM) and has held a number of positions in the Mexican government.

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**Heidi S. Cruz\*** is an energy investment banker with Merrill Lynch in Houston, Texas. She served in the Bush White House under Dr. Condoleezza Rice as the Economic Director for the Western Hemisphere at the National Security Council, as the Director of the Latin America Office at the U.S. Treasury Department, and as Special Assistant to Ambassador Robert B. Zoellick, U.S. Trade Representative. Prior to government service, Ms. Cruz was an investment banker with J.P. Morgan in New York City.

*Note:* Task Force members participate in their individual and not institutional capacities.

\*The individual has endorsed the report and submitted an additional or a dissenting view.

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**Thomas P. d'Aquino** is Chief Executive of the Canadian Council of Chief Executives (CCCE), composed of 150 chief executives of major enterprises in Canada. A lawyer, entrepreneur, and business strategist, he has served as Special Assistant to the Prime Minister of Canada and Adjunct Professor of Law lecturing on the law of international trade. He is the Chairman of the CCCE's North American Security and Prosperity Initiative launched in 2003.

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**Gary C. Hufbauer\*** was Director of Studies at the Council on Foreign Relations and holder of the Maurice Greenberg chair in 1997 and 1998. He then resumed his position as Reginald Jones Senior Fellow at the Institute for International Economics. Together with Jeffrey J. Schott, he is completing a new appraisal of NAFTA, to be published in fall 2005.

**Pierre Marc Johnson\***, a former **Premier of Québec**, attorney, and physician, has been Counsel to the law offices of **Heenan Blaikie** since 1996. He was a **senior member of René Lévesque's cabinet (1976-85)** and succeeded him. Since 1987, Mr. Johnson has been Professor of Law at McGill University and an **adviser to the United Nations** in international environmental negotiations. He has written numerous books and essays on trade and the environment, civil society participation, and **globalization**. He lectures in Canada, the United States, and Mexico, and serves on Canadian and European boards.

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