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# Discussion Following the Speech of Mr. Kassinger

Discussion

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## DISCUSSION FOLLOWING THE SPEECH OF MR. KASSINGER

DR. KING: I had a question for you, Ted. You mentioned export controls, and we heard this morning that the Canadian approach is largely multilateral, and of course, the U.S. is pretty unilateral. I don't know. I mean, is this – it is pretty hard for me to look at how you cooperate in that area.

There are some differences. Maybe there are limitations, and maybe you can deal with it in matters informally. I don't know. But I didn't know whether you had any thoughts on that because export controls particularly as applied to Cuba are divisive between Canada and the United States.

MR. KASSINGER: I would first distinguish between normal ongoing export control programs and economic sanctions-related controls. I hesitate to differ with experts who might have commented earlier, but I would disagree with the propositions that, first, the United States' export control regimes are more unilateral than Canada's, and, second, if the suggestion was there, that there is not substantial agreement across the border on the basic premises in the practical applications of those controls.

The United States is an active participant in the Australia Suppliers Group, the Missile Control Technology Regime, and other multilateral fora in which we coordinate our export control regimes.

That doesn't mean that individual members of those groups, not just the United States, may choose to impose controls, higher standards, than the group as a whole. But the baseline is set there, and we work very hard to achieve commonality in our approach. There is a very simple practical reason for that, which is, those controls are ineffective unless you do have common agreement.

So I see this as a rich area for additional cooperation. I don't think our differences with Canada, other than perhaps in some of the sanctions areas, are very material. I think the real opportunity frankly is to bring Mexico up to the standards of Canada and the United States in this area.

DR. KING: Other questions. Yes. Jon Johnson.

MR. JOHNSON: If agreement is reached on an SPP, how much of that would require legislation in the U.S. to implement, and how much chance would there be of that legislation passing without being dismembered by Congress?

DR. KING: That's a good question.

MR. KASSINGER: There are two key points to understand about the SPP that go directly to the answer to your question. The first is that unlike, say, a

NAFTA negotiation or the Doha round of WTO negotiations, the SPP is being launched without a specific end date or a specific set of things that we are trying to negotiate in order to bring back a single package of accomplishments. Rather, the SPP is envisioned as an ongoing process.

As I mentioned, it does not have a sunset date. The two leaders have charged the working groups with going out, identifying issues that can be resolved, figuring out how to do that, and reporting back twice a year on the progress they are making. There will be no end of things to look at.

And so the first answer to your question is, there is no specific package of things that will be brought back for legislative action. The second point, to which I also alluded to in my remarks, is that we are focusing on regulatory measures for the most part, and areas of enhanced cooperation in joint development programs, for example.

We are specifically not looking for things that would require legislation, although it is possible that at the end of the day there may be a need in one or more of the countries to seek legislation to implement an agreed end. But, for example, one of the rich areas we see is standards, where there is so much redundant testing required and often competing standards.

A great deal of standard setting is done in the private sector with government support or by national standard setting institutes; in our case, this is part of the Commerce Department, the National Institutes of Standards and Technology.

Standards are something we don't need new authority to do by and large. So the idea is to, say, accredit a lab in Canada that can certify products made in Mexico and the United States as well as Canada without having to have a manufacturer go to each country to get the same kind of certification. So that's the kind of thing we are looking for.

DR. KING: Yes, sir. Jim Phillips.

MR. PHILLIPS: Ted, I was fortunate to be invited to attend Secretary Gutierrez –

DR. KING: Can you hear, Jim? Do you want to give him the microphone?

MR. PHILLIPS: I was appreciative being invited to attend the briefing by Secretary Gutierrez in Washington on SPP last Thursday, and he went at great lengths to discuss a dynamic that I found very interesting, and I thought you might want to comment.

And that was that this agreement was designed because of the vagaries of politics to outlive any future election in any one of the three countries where the new leader might choose to back away from this SPP in a short run period; that it was designed to continue this program through that kind of a

pothole, if you would, and then go on for the big picture. I found that a very interesting dynamic. You might want to comment on that.

MR. KASSINGER: I think that is built into the way the SPP is structured, and that is as an ongoing effort, commitment by the three countries to identify ways to collaborate more and to remove unnecessary internal barriers.

In that sense, although the current three leaders have launched it, it really is not personal to them. It is something essential to the three countries I think and, hopefully, will endure whatever the ups and downs of the election cycle in each of the three countries.

I should emphasize, by the way, that I give full credit to our colleagues in the Canadian government for first raising and proposing this concept. They did this shortly after 9/11, although I know even in Canada it had been discussed before, and you are beginning to see a number of papers from think tanks and elsewhere pushing the governments to move in this direction.

Most recently, about the second or third week of March, the Council on Foreign Relations issued a white paper by a distinguished group urging the governments to move in this area.

DR. KING: Other questions. Yeah. David Crane?

MR. CRANE: There is a lot of discussion about China these days, and at times, it becomes a bit paranoid I think and – but I wondered to what extent this effort is driven by concern over China and what the risks may be. This may become more of a fortress and somewhat of a protectionist kind of block in response to, in my opinion, an accurate perception of a Chinese threat.

DR. KING: That's a good question.

MR. KASSINGER: As I noted in my opening remarks, the burgeoning U.S. trade deficit with China has certainly caught the attention of many, and rightfully so. There are a lot of explanations for it, and it is important as the U.S. responds to tread carefully and to really understand the causes of the changing nature of trade between the United States and China.

I am sure Canada, although I haven't looked at the statistics, is probably feeling some of the same changes. China is fundamentally reshaping economic relationships around the world. Just to give you an example, we had a \$163 billion dollar trade deficit with China in the United States last year. Over ten percent of that was accounted for by imports from a single company, Wal-Mart.

Supply chain management is radically changing with the rise of China as a manufacturer and supplier, but interestingly enough, China is also the fastest growing export market for the United States. We have a long way to go to catch up with the import side, but it is a huge market for U.S. exports now.

So as I said in my opening remarks, this is something that gets our attention, but the response is not protectionism; it is to look around and try to fig-

ure out what is the best way you can make the United States, if you are looking at it somewhat parochially, a competitive place in the world economy. And one of the answers to that, we believe, is to make North America the most competitive place it can be.

Even if it is only Kellogg, if they are more productive because they can sell across the huge consumer market in North America the same box of cereal without having instead to produce three versions of it, they will be more productive and more competitive. None of that is a recipe for raising barriers to, say, Chinese imports. In fact, it should make the market more competitive and attractive for everyone.

DR. KING: Other questions. Yeah. Selma Lussenberg.

MS. LUSSENBERG: I am looking at the paper in the binder we were given, which says home security, common prosperity, and new partnership in North America. It is under the tab. When I read through it, I am struck by the fact there is a lot of Canada and United States, and it seems that Mexico is not a full participant in this process when I look at the words. It is a lot of Canada and the United States. Mexico will cooperate.

Can you comment on that? Is this really a trilateral arrangement, or is it a bilateral arrangement which Mexico over time may join?

MR. KASSINGER: That is a very good question as well. It is envisioned and will be a partnership of the three countries. The fact is that the U.S. and Canada – the framework, I mean, the foundation for this initiative, arises out of things that mostly the U.S. and Canada have done, like the Smart Border Accord, and we have a far longer and deeper integrated security and economic relationship.

But Mexico is a very eager participant, and it has been quite interesting to see their enthusiasm. President Fox and his team have kind of jumped the gun a couple times over the last year by announcing they were headed in this direction before we were quite ready. I think they see the SPP as a great tool for economic reform in Mexico, to link themselves to where Canada and the United States want to head. And we would welcome that. We would like to bring Mexico along. I think in some cases it is just going to be harder because they have far less resources and are less developmentally along.

I will give you an example in the standards area. Their resources devoted to setting standards are far less than the United States and Canada. They have far less capacity, so one of the things we will be engaged in probably is capacity building, but I expect Mexico to be full participants.

The other issue is, frankly, a complicated one with Mexico: Immigration. Immigration will not be part of the SPP, but they do see this again as a way of fostering economic growth in Mexico, which, like the goals of the Partnership for Progress, hopefully will reduce some of the immigration pressures.

DR. KING: Yeah. Next question. In the back there.

MR. LAMBING: Sir, could you please explain to me how you foresee the standardization of biometrics data on passports to be carried out?

DR. KING: Did you hear the question?

MR. KASSINGER: Yes. The question is, “how do I foresee the standardization of biometrics data on passports being carried out?” Is that right?

MR. LAMBING: Yes, with that on task.

MR. KASSINGER: This is an interesting and complex subject. The Commerce Department, through the National Institutes of Standards, in fact, at this very moment is publishing standards and proposed standards for the use of biometrics information for federal identification purposes.

A U.S. passport is a form of federal ID, although the current initiative that we are pursuing is aimed more specifically at federal agency IDs. The idea is that in the federal government, we are going to have identification cards that are electronically readable, contain biometric identifying information, fingerprints, for example, perhaps iris scans, something else, and you will be able to go from one federal agency to another anywhere in the world and use the same card. They will be interoperable.

In the passport area, we want to make passports more secure by adopting similar technology, and in addition, Congress has mandated that passports from other countries meet certain basic standards if those countries want to continue to participate in the visa waiver program. Those are basically the countries of Western Europe, and so we have been working very hard with our Canadian and European allies to come up with an agreed way of meeting the new higher standards for passports.

So, how I envision this working is that the Department of Homeland Security and its counterparts in Canada, and the State Department in the United States and External Affairs in Canada, will be collaborating very closely on where we are going, first because we are being driven by Congressional mandates, and also because of the continuing imperative all of us feel from 9/11, to get higher standards in place.

But it is essential that what emerges will work for Canada and Mexico eventually, and so at a top level we will try to reach agreement on basic standards. Beneath that top level are an infinite number of technical details to be resolved. We are publishing, the Commerce Department, at this time large white papers that go into great detail about how one can meet these standards, but that’s a very technical part of this larger question.

DR. KING: Yes, sir. Other questions? Yeah. David Crane.

MR. CRANE: I think a lot of us are very sympathetic on the issue of harmonization or mutual recognition of standards, but the devil is always in the details. And you mentioned breakfast cereals and the Kellogg Company. I am more familiar with Cheerios and General Mills, and there is a disagreement

between Canada and the United States on what is the appropriate level of folic acid in the cereal.

There is one plant that manufactures this product. It is in the United States. When it produces for Canada, it has to close down, clean out its machines, start up, make that production run, then close down again, clean out the machines, and start for the U.S.

The question is: How do you reconcile the differences to the satisfaction of both countries? It is not a mutual recognition issue in that particular case, but if you have scientific groups in the two countries that disagree on this, is there a third-party adjudication or some other approach that you can follow to deal with issues of this sort?

MR. KASSINGER: You put your finger on exactly some of the complexity of this effort, particularly in the food safety area and other environmental and public health regulations. We don't envision putting these disputes to some kind of third-party arbiter. What we do hope is that by focusing attention and being directed to do so at the highest levels of Government, we can have breakthroughs in some areas where we have been trying to cooperate but just for some reason haven't been able to reach common agreement. There are a myriad of those dealing with chemicals regulations, for example. There is kind of an oddity of the wood products area where the U.S. industry often comes up with new building materials, and in Mexico this area is basically unregulated, but in Canada such new products are regulated at the provincial level and individual approvals must be obtained. And it apparently can take long, long periods of time to get some of these things approved.

So many of the issues that will be identified will not be easy to resolve, but solutions hopefully will be found through negotiation and heightened recognition; it is important to achieve commonality in our views of these things.

DR. KING: Larry Herman.

MR. HERMAN: Mr. Kassinger, I thought it was interesting to read the joint letter that was sent to the President and the Prime Minister by the National Association of Manufacturers and the Canadian Manufacturers and Exporters.

Now, you probably wouldn't have read it because there are a lot of things on your desk, but in that letter, which was sent, which was sent before the Crawford meeting, the two associations said that security – North American security is by far the key issue for the leaders, and we know that, particularly from the American perspective, is a vital issue.

But it – the letter also went on to say – and I thought it was interesting because it was a joint letter, jointly agreed to by two manufacturing associations – said among the challenges in the North American context is the need

to root out protectionism and to improve on dispute settlement in the NAFTA.

Now, the code word “rooting out protectionism,” I can tell you is rooting out American protectionism, and that’s what NAM and CME-NAM and improving NAFTA dispute settlement was an indirect reference to softwood lumber and all of the problems – if you were here this morning, I think you were, heard about this morning.

Does the SPP in any way intend to address these two issues?

MR. KASSINGER: No.

(Laughter.)

MR. KASSINGER: Again, I mentioned in my remarks there are at least two carve outs, one for immigration and one for bilateral trade disputes. But in furtherance to your question, the SPP is not intended to supplant existing trade agreements or other agreements that are providing frameworks in which we are making progress on many fronts. And NAFTA, of course, is the primary one of those. This is not an effort to supplant NAFTA at all.

NAFTA does provide its own framework for negotiating, discussing changes in the trade dispute mechanisms. So the SPP won’t be the forum for those discussions.

DR. KING: Right here.

MR. JANSEN: Gordon Jansen. One of the main thrusts you were saying in the SPP is regulatory harmonization, regulatory initiatives of some kind, and as you know, U.S. states and Canadian provinces are big players in the regulatory game. What role do you see for U.S. states and Canadian provinces in all of this? Because as I understand it at the moment, there isn’t one.

DR. KING: Did everybody hear the question: the role of states in this whole process.

MR. KASSINGER: Role of state and local governments. We envision that they will play a key role in those areas where they retain jurisdiction, primary jurisdictional responsibility. Again, this is not an effort to supplant existing roles of key players, and that certainly would include state and local governments. We are in the process of reaching out, too, in the United States to state government organizations to solicit their ideas.

There are areas, as I mentioned regarding the lumber products matter, in Canada where it is purely a matter of provincial regulation. So with the Canadian Government, I hope we will find a way of talking to the provinces and see if that’s an issue that can be taken up in the right way. But in a great many areas, it is really regulation at the federal level, and so we will make progress where we can.

DR. KING: Yeah. Jon Johnson.



MR. JOHNSON: Larry struck out on softwood lumber, so I will try another one. Mad cow seems to come rather squarely into the sorts of issues you are talking about with harmonization of approaches to animal disease and that sort of thing.

Is that on the radar screen, and what possible resolution might there be of that coming out of this?

DR. KING: Did everybody hear the question?

MR. KASSINGER: The question concerns mad cow disease and how does that issue specifically fit in.

That is a matter of high visibility within the U.S. Government, and it is an example, I think really, of an issue that will go forward on its own, not under the rubric of the prosperity initiative. That's a matter being worked on at the highest levels, intensively in our Agriculture Department and even in the White House, together with our Canadian counterparts. So I think that will continue a pace. It doesn't need any Presidential support.

DR. KING: Jim Phillips.

MR. PHILLIPS: Ted, one more question trying to add to David Crane's first question regarding China: You mentioned the large trade deficit. Of course, we have – Canada has – and I know that the pegging of the Chinese currency to the U.S. currency is about 40 percent, whatever it is.

As our United States currency has dropped 25 percent in the last while, China's has gone right with it so that there has been no change in the relative balance. That has hurt Canada; it has hurt the United States. And, of course, Mexico. I think there is 30 percent unemployment on the Tex-Mexico border due to the fact that China has taken a lot of that business because of the currency.

So is that something that is on the agenda to deal with for the benefit of North America?

MR. KASSINGER: You know, it is a little known fact that all senior U.S. Government officials are wired with a remote running back to Washington, and if they say anything at all about exchange rates, their mouths are immediately zipped shut. Secretary Snow sits at the switch.

MR. PHILLIPS: That was not intended that way.

MR. KASSINGER: But let me address generally your concern. As recently as yesterday, President Bush himself made it very clear that we expect the Chinese to move to a flexible exchange rate system, and Secretary Snow and Undersecretary John Taylor of the Treasury Department reiterated that call as well. It is not an easy thing to do overnight. You know, you have to have banking regulatory supervision in place. You have to have financial institutions that are actually capable of handling large capital flows.

There are a number of other reasons why China hasn't necessarily been ready to simply float its currency, but John Taylor said yesterday they are capable of it.

So we do believe that exchange rates are best set by the markets, and it will be pretty disappointing if the Chinese leadership doesn't follow through when they strongly indicated over the last several months that they will move in that direction. It is certainly a matter of concern.

DR. KING: Well, this has been a wonderful session.

MR. KASSINGER: I believe there are one or two others up there.

DR. KING: Oh, one more. Kevin Brosch.

MR. BROSCHE: Thank you. Even though the President may not have to be particularly concerned about BSE because of the attention spent to it, the problem that the gentleman suggests points out a larger issue, and that is the glacial pace of rule making in the United States in response to some of these trade issues.

The rule making, for example, at the Department of Agriculture on BSE has moved at a particularly slow pace, and that's also the case, for example, with our dispute with the European union over pork disease issues.

Is there any component to this initiative that will address this question of the pace of rule making in the United States?

MR. KASSINGER: That is certainly a subject that could be taken up in the prosperity sphere, and you ought to put that in on the Canadian or U.S. side as something that ought to be taken up. It is not on the initial list of things we came up with, but I will say that most of the work was closely held on this for the last couple of years because it was uncertain when we would issue it. So a number of the things are things – in fact, virtually everything we have on our initial list are just ideas that officials in the three governments knew about or thought about based on what they were doing every day. And that's why we are so anxious to get public comment on what else should go in the hopper. But in concept, yes, that's the kind of thing that could be addressed.

DR. KING: Well, we have had a wonderful session. Ted, thank you very much.

(Session concluded.)

