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Thank you Chairman Burton, Representative Engel, and Members of the Subcommittee for inviting me to discuss U.S.-Canada Relations. I appreciate the opportunity to share with you the Department of Commerce's role in strengthening this vital relationship.

President Reagan once described U.S.-Canada relations as "the most productive relationship between any two countries in the world." From the commercial perspective, the numbers speak for themselves.

The increased economic cooperation of our region has been nothing short of amazing. Two-way U.S. merchandise trade with Canada has increased by more than 185 percent since the implementation of the Canada-U.S. Free Trade Agreement in 1989.

This afternoon, I will be discussing the following aspects of our relationship with Canada:

- U.S.-Canada trade relationship
- Security and Prosperity Partnership of North America
- Western Hemisphere Travel Initiative
- Softwood Lumber Agreement

U.S.-Canada Trade Relationship

Free trade has been an enormous success for all of us in North America.

Between 1993 and 2005:

- The U.S. economy grew by 48 percent.
- The Canadian economy grew by 49 percent.
- The Mexican economy grew by 40 percent.

Canada is our number one trading partner. Total bilateral merchandise trade was valued at \$499 billion in 2005 -- that's nearly \$1.4 billion each day. Canadian firms and consumers purchased \$313.5 billion of goods from the United States last year -- roughly 23% of U.S. exports.

Of course, the aggregate trade numbers only tell part of the story. U.S. exports to Canada and Canadian exports to the U.S. actually exhibit a good degree of commonality because many of the same products figure prominently in both our import and export flows. This suggests that in many vital sectors such as autos, Canada and the U.S. are working together to "co-produce" products.

Indeed, thousands of businesses have successfully integrated their operations on a regional basis to take advantage of convenience, quality, and capacity utilization

differentials. This private sector-led process of building cross-border supply chains is a crucial feature of the economic geography of North America.

To remain competitive in the global economy, we must integrate our region's economies. Fortunately, we share a border with like-minded strategic partners.

But, we can't stand still. We must consider collective action to enhance our regional competitiveness. Clearly, Europe and Asia are fostering integration to improve their regional competitive positions, and we should do the same.

Security and Prosperity Partnership of North America

One of the tools we are using to boost our competitive position is the **Security and Prosperity Partnership of North America, or SPP**. The SPP recognizes that our security agenda and our economic agenda must be addressed within a collective, regional framework. Our borders must be sealed shut to terrorists, drug dealers, and human traffickers, yet remain open to trade. Indeed, our security and trade interests can be complementary.

The SPP is an opportunity to build more open, more secure societies and more competitive business communities for stronger economies.

When President Bush met with President Fox and Prime Minister Harper in Cancun, Mexico on March 30 and 31, the three leaders agreed to advance the Security and Prosperity Partnership of North America (SPP) by focusing on five high priority initiatives:

- **The North American Competitiveness Council (NACC).** It is vitally important that we use the U.S. – Canada relationship to enhance our region's competitiveness in this global economy. Increased private sector engagement in the SPP through high-level business input will create a public-private partnership to enhance North America's competitive position. The member companies of the NACC will convene their first meeting with Prosperity ministers here in Washington this June. Secretary Gutierrez will participate in the meeting along with Canadian Industry Minister Maxime Bernier and Mexican Economy Secretary Sergio Garcia de Alba.
- **Advancing Cooperation to Combat Avian and Pandemic Influenza.** The strength of our relationship also allows us to face challenges – like the potential spread of Avian and pandemic influenza. In addition to creating a new high-level consultative body, leaders agreed to collaborate and work transparently on all stages of emergency management to mitigate the impact of a potential outbreak in North America. We are particularly interested in ensuring that the business continuity plans of our respective governments consider the highly interconnected nature of our economies.

- **North American Energy Security Initiative.** A secure and sustainable energy supply is essential for economic prosperity in North America. To advance our energy agenda we have agreed to enhance a diverse energy resource base in North America by increasing collaboration on research, development and commercialization of clean energy-related technologies. We also agreed to strengthen the North American energy market by improving transparency and regulatory compatibility; promoting the development of resources and infrastructure; increasing cooperation on energy efficiency standards; and supporting other efforts aimed at addressing challenges on the demand side.
- **North American Emergency Response Coordination.** The leaders recognize that a disaster – whether natural or man-made – in one North American country can have consequences across national borders, and may demand a common approach to all aspects of emergency management. Recent experience with hurricanes and ice storms demonstrate our interdependencies, as well as the need for coordination and mutual assistance in protecting and safekeeping our populations.
- **Smart, Secure Borders.** Leaders agreed to complete the following activities, to contribute to smart and secure borders, over the next twenty-four months:
 - Collaborate to establish risk-based screening standards for goods and people that rely on technology, information sharing and biometrics.
 - Develop and implement compatible electronic processes for supply chain security that use advanced electronic cargo information to analyze risk and ensure quick and efficient processing at the border;
 - Develop standards and options for secure documents to facilitate cross-border travel;
 - Exchange additional law enforcement liaison officers to assist in criminal and security investigations; and,
 - Develop coordinated business resumption plans at border crossings to ensure legitimate trade continues.

This week, the Department of Commerce is hosting a meeting of the North American Steel Trade Committee (NASTC). This government/industry collaboration recently launched a North American Steel Strategy under the SPP. In an effort to further our joint efforts with our Canadian and Mexican neighbors in the areas of external and internal trade and competitiveness, approximately 65 U.S., Canadian, and Mexican officials from government and industry will participate in this week's discussions.

Western Hemisphere Travel Initiative

As the federal agency responsible for fostering the foreign and domestic commerce of the United States, the Department of Commerce takes a keen interest in policies that impact trade of the more prominent current U.S.-Canadian trade issues. The **Western Hemisphere Travel Initiative** is one such policy. We have heard from concerned U.S. business groups about potential issues related to border delays, the cost of compliance, and delays in obtaining appropriate documentation.

We understand these concerns, and are working with the Departments of State and Homeland Security to ensure that commerce remains strong after the WHTI is fully implemented. Following the resolution of softwood lumber, the WHTI is a top priority of the U.S.-Canada agenda.

Softwood Lumber

On April 27, the U.S. and Canadian governments announced a framework for an Agreement to resolve the long-standing trade dispute on softwood lumber. This Agreement demonstrates the strength of the relationship between the United States and Canada and shows that we can resolve our differences in a cooperative spirit.

By allowing workers and industry on each side of the border to compete in a fair environment, this Agreement advances the interests of communities, workers, and consumers. Based on the framework, we expect that the Agreement will provide stability for the North American lumber market to producers and consumers alike. Under the terms of the framework, all litigation will end and the antidumping and countervailing duty orders will be revoked when the Agreement is finalized. We expect this to occur early this summer. The framework also addresses possible import surges from Canada, distributes duties currently being held, and includes dispute settlement provisions.

Cooperation with Canada on trade, security, and quality of life issues helps make North America the best place in the world to live, work, and do business. At the Commerce Department, we are building upon the strong Canada-U.S. relationship to further our common goals.