

# WebMemo



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## U.S. Partnerships with Canada, Mexico, and the E.U. to Streamline Trade Regulations Should Continue

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During his campaign for the presidency, Barack Obama called for the renegotiation of the North American Free Trade Agreement (NAFTA) and other trade agreements. Such a move is not only unnecessary; it would also likely result in a bevy of new restrictions on trade that would do little to promote U.S. economic interests and, worse, could hinder them. A better approach would be to enhance existing collaborative initiatives with some of America's most important trade and investment partners. Two examples are the Security and Prosperity Partnership of North America (SPP) with Canada and Mexico and the Transatlantic Economic Council (TEC) with the European Union. Both of these are forums that enable the U.S. and its significant trade partners to find new avenues to improve the flow of commerce and promote greater coherence and consistency in trade rules and regulations.

Having differing regulatory regimes frequently creates additional non-tariff barriers to trade that increase the cost of doing business across borders and thereby reduce—rather than stimulate—commerce. Each country's approach to regulation can range from lax or loose to restrictive, transparent to opaque, and cumbersome to simple, making it difficult for even the savviest of multinational firms to navigate a complex regulatory labyrinth and remain competitive in global markets.

To help improve America's trade relationships, the Obama Administration should strongly support such initiatives as the SPP and TEC that strive to reduce, rationalize, and make regulation more coherent, transparent, and effective.

**Significant Progress on Streamlining Regulation.** The Security and Prosperity Partnership (launched in 2005 by the presidents of the United States, Mexico, and Canada) is nothing more than a structured dialogue among the NAFTA partners on ways they can work together to improve security and prosperity in the hemisphere by enhancing cooperation, cutting red tape, and advocating consistent, effective regulation. Various SPP working groups meet each year to discuss common economic and security issues. Specific issues include the responsibility of federal, state, and local governments to work cooperatively with businesses and other relevant non-governmental groups to reduce the cost of trade and promote competitiveness in participating countries.

Some recent achievements of the SPP include:<sup>1</sup>

- The Bilateral Aviation Safety Agreement between the U.S. and Mexico, which ensures compatible standards in the manufacture of civil aeronautical products;
- Improved regulatory cooperation between the U.S., Canada, and Mexico on the approval of new pesticides;

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- A project to harmonize animal health standards that will facilitate U.S. and Canadian exports of cattle to Mexico;
- An agreement to examine differing import licensing procedures affecting trade in steel products among the three countries;
- A trilateral agreement to improve the consistency of food labeling;
- Better harmonization of energy efficiency standards for all SPP members; and
- The development of the Regulatory Cooperation Framework “seeking to improve trilateral regulatory cooperation to (1) lower costs for North American businesses, producers, governments, and consumers; (2) maximize trade in goods and services across our borders; and (3) protect health, safety, and the environment.”<sup>2</sup> The framework will be supplemented by a list of best regulatory practices based on the *OECD Guiding Principles for Regulatory Quality and Performance*.

SPP activities can complement those pursued within NAFTA working groups, but that does not represent an expansion of NAFTA.<sup>3</sup> Actions taken by each of the partner countries occur within the realm of their own existing laws and thus pose no threat to sovereignty. In the U.S., there is no budget authority for the SPP, so it will be up to Obama to instruct his new Administration to continue this productive and effective partnership. As Heritage Foundation analyst Ray Walser has recommended, Obama should make a point of reassuring Americans that the SPP will not become a vehicle for creating a “North America Union,” given that the SPP process requires transparency, various con-

gressional committees have oversight over its activities, and there is a mechanism for citizens to give their input.<sup>4</sup>

**Transatlantic Economic Council.** Established in 2007, the Transatlantic Economic Council is similar to the SPP. It seeks to dismantle barriers to trade and investment between the U.S. and the European Union while enhancing the transparency and consistency of regulations. The U.S. and EU are not partners within a bilateral free trade agreement, yet the economic links that bind them are significant, and the regulatory policies they establish often set the standard for the rest of the world. Founded on open-market principles, TEC efforts are focused on streamlining regulations on a sector-by-sector basis to better support the private sector by improving transparency and developing best practices.<sup>5</sup>

Recent accomplishments within the TEC include:<sup>6</sup>

- Closer cooperation and information sharing on product safety standards and monitoring;
- Enhanced dialogue on rationalizing sanitary and phyto-sanitary regulations;
- Collaboration on improving inspections and regulations of medicinal products;
- Cooperation to better ensure market access to the EU for U.S. products following Europe’s implementation of new, restrictive chemicals regulations;
- Movement toward a comprehensive “open skies” air transport agreement to enable U.S. and EU airlines greater access in each other’s markets; and

1. Security and Prosperity Partnership of North America, “Key Accomplishments Since August 2007,” April 22, 2008, at [http://www.spp.gov/pdf/key\\_accomplishments\\_since\\_august\\_2007.pdf](http://www.spp.gov/pdf/key_accomplishments_since_august_2007.pdf) (December 18, 2008).
2. Security and Prosperity Partnership of North America, “Common Regulatory Principles,” at [http://www.spp.gov/docs/RCF\\_Common\\_Regulatory\\_Principles\\_Inventory\\_Best\\_Practices\\_FINAL.doc](http://www.spp.gov/docs/RCF_Common_Regulatory_Principles_Inventory_Best_Practices_FINAL.doc) (December 18, 2008).
3. Security and Prosperity Partnership of North America, “SPP Myths vs. Facts,” at [http://www.spp.gov/myths\\_vs\\_facts.asp](http://www.spp.gov/myths_vs_facts.asp) (December 18, 2008).
4. Ray Walser, “Calderon and President-elect Obama Meet: A New Start in the Neighborhood,” Heritage Foundation WebMemo No. 2202, January 12, 2009, at <http://www.heritage.org/Research/LatinAmerica/wm2202.cfm>.
5. European Union, “Transatlantic Economic Council Report to the EU-U.S. Summit 2008,” at <http://www.eurunion.org/partner/eurelations/TEC.htm> (December 18, 2008)
6. *Ibid.*

- A review of methodologies for measuring the regulatory impact on international trade.

The new Administration should also support a continuation and enhancement of this partnership.

Both the SPP and the TEC address property rights protection and enforcement, effective inspections and data sharing on food safety, border measures affecting trade, and other economic and security concerns. Many of the regulatory issues addressed within their frameworks are not only complex but lie at the heart of much of the trade friction among the partners. Thus, sufficient dialogue may be needed to resolve the problems raised in the working groups. Finally, because these initiatives are driven by executive- and senior-level guidance on what regulatory priorities need to be on the agenda for analysis and discussion, their success ultimately depends on the firm commitment of leadership to see the efforts through to implementation.

**Free Trade That Works for America.** While U.S. trade agreements lower barriers to trade and investment, they result in “freer” trade rather than completely unfettered access to markets. Many non-tariff barriers to trade—such as complex and inconsistent regulations—can remain, with the hope that they can be resolved over time as our trade relationships evolve. The SPP and the TEC demonstrate that effective mechanisms can be found to improve the coherence, consistency, and effectiveness of regulation; enhance regional and transatlantic competitiveness; and develop stronger economic relations. In addition to supporting free trade, the Obama Administration should also pursue efforts within these initiatives that will result in greater economic benefits for America and its partners.

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