

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

Recommendation 32

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

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

Recommendation 34

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

