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## **Mr. Harper Goes to Washington**

### **A Policy Update Paper**

By

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## **ABOUT THE AUTHOR**

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Wednesday's White House meeting between Barack Obama and Stephen Harper is unlikely to ripple the surface in Washington. Unlike the president's February visit to Ottawa, with its breathless and blanket coverage, most Americans don't pay much attention to relations with the northern neighbour. Not because they don't care or we don't matter, but because we are not a vital problem. For the most part, this serves Canadian interests – when America focuses on a problem the first instinct is often to reach for the hammer.

For Canada, we only have one neighbour and, like it or not, it is the one relationship that we have to get right. Time with the president is valuable. The first rule of preparation is to differentiate between the transactional and the important and to delegate as much of the transactional – the small irritants and stocktaking in the bilateral relationship – to the cabinet and ambassadors for resolution. The second rule is to offer constructive solutions on international issues in which America bears the burden of global primacy.

While we share many interests with America, our priorities are likely to differ at least as often as they coincide. Prime ministers must proceed without illusion in their dealings with our powerful neighbour. Get too close and you risk a scolding from Canadians who prefer some distance. Too much distance leaves us out in the cold and irrelevant. The Canadian challenge is to manage our differences, to avoid the temptation to whine, and to offer initiatives that solve problems. We must always keep in mind the advice of former Prime Minister L.B. Pearson: “diplomacy is the art of letting the other guy have your way.”

Both leaders are preoccupied with their domestic travails and this creates mutual empathy. Since February the two have met one another a half dozen times on the seemingly never-ending circuit of international summits and they appear comfortable with one another. This is important because problem solving is always easier when the tone at the top is good.

For the president the honeymoon is over. The country repolarized quickly and sharply and he is into the hard slog of governing on his ambitious agenda. The August town halls illustrated an America passionately divided on health care. He has also learned that, notwithstanding his leadership, a Democratic majority is not a liberal majority. The presidential speeches earlier this month on the value of an education, and the speech given to a joint session of Congress on health care, are part of the effort to recapture the initiative and regain the Obama mojo. In America, politicking is a permanent campaign.

For both leaders the economy is their abiding preoccupation. Pollsters have long observed that the fortunes of presidents and prime ministers track the unemployment rate. As James Carville famously observed during Bill Clinton's first presidential campaign: “it's the economy, stupid.” Our economic situation is currently better than that of the US, but we should never forget that 40 percent of our economy is dependent on our access to the American market, nor of the benefits we've increasingly enjoyed from supply chain interdependence in making things together, most notably, automobiles.

Canada needs a healthy America. So does the world. Consumer spending in the US has traditionally accounted for roughly 70% of the nation's economic activity. To put it in a global perspective: private consumption in America was about US\$10 trillion in 2008 while EU consumption accounted for about US\$9 trillion and Asian consumption was less than US\$5 trillion. Consumption is rising in emerging market economies but it starts from a much lower base. The question that haunts economists, and that we should all be asking, is: has the global economic expansion, led for so many years by American consumer credit cards, stalled, perhaps permanently?

The leaders can take heart that the stimulus packages have generated a stock market recovery and signs of growth. The bad news is that unemployment is increasing. Even the president acknowledges the jobless rate in America – now 9.7 percent – will soon enter the double digits. Since the recession began, seven million jobs have been lost in America. The protectionist's drums are beating and their steady beat will continue and become louder. As the CIBC has just pointed out, these restrictions are sufficiently punitive to curb Canadian growth next year.

'Buy America' is the most pernicious form, but we are also seeing protectionism under the cloak of environmentalism, national security, and health and safety. Canada may not always be the target, but given our economic integration, we will certainly be the hardest hit. Given the asymmetry of the relationship – their trade with Canada represents only about 5 percent of their economy – Americans don't pay much attention, even though their trade with Canada sustains nearly seven million American jobs. We need to remind Americans of the jobs that depend on Canadian trade and to frame them in local terms at every opportunity, especially members of Congress who are most susceptible to the siren song of 'saving American jobs' from unions bearing campaign contributions.

Here we need to enlist Canadian unions, especially the affiliates of the 'internationals' like the Steelworkers who have been driving the 'Buy America' campaign at the state and local levels. If there is one person who understands supply chains and the integrated nature of the manufacturing industry, it is Leo Gerard, the Canadian president of the US Steelworkers. As national director of the Canadian division of the USW in the early '90s, Gerard helped lead the tripartite effort of governments, business and labour to secure congressional exemption for Canada from actions aimed at the EU. The tripartite approach should be resurrected not just in manufacturing, but also in service industries like trucking and transportation.

Since most of the stimulus spending is taking place at the state level where NAFTA provisions do not apply, we've proposed a reciprocity treaty in procurement between states and provinces. The heavy lifting for this will fall to the premiers and provincial legislators who need to make the case around supply chain dynamics and mutual benefit to their state counterparts. This is the playing field that Premier Gary Doer well understands. Bringing coherence to what will have to be a national campaign should be Ambassador Doer's first mission.

In the past, we've asked presidents to 'fix' protectionism. Their response is that while they empathize, they have their own problems with Congress, which Canadians sometimes forget is a separate branch of government. We need to reframe our request to ask that the Administration do all within its jurisdiction to avoid and remove existing regulatory restrictions on our joint commerce and, importantly, to give this guidance to regulatory czar Cass Sunstein for future interpretations. Much of the pernicious impediments to trade are regulatory in origin – rules around truckers hauling freight between cities, country-of-origin labeling, and now Canadian hockey players flying between American cities.

A cautionary note: these issues are the 'transactionals' of the relationship and while they are domestically sensitive, we need to recognize the importance of differentiation. The place to sort them out is at the cabinet and ambassadorial level. Putting them atop the head-of-state leaves American presidents wondering if they're dealing with a leader of the G-8 or a governor. As former Secretary of State Condi Rice observed, here come the Canadians with their condominium issues.

Improvements to border management will remain stalled as long as there is a drug war raging on America's southern border. While geography means that there are almost twice as many

congressmen along the northern border, the hard facts of migration, demography and the electoral potential of the 34 million Latinos, mostly Mexican, now living in the U.S. gives the southern border caucus the upper hand and they will prevent any perception of a special deal for Canada. And so, for now, we have to endure the installation and inconvenience of what Homeland Security and former Arizona Governor Janet Napolitano calls a 'real border' and one, unfortunately, based on the southern model of more guards with guns and gizmos like flying drones.

We need to reframe this debate around the principle of 'risk management' and the creation of a perimeter. Following through on the proposed reforms to our refugee system will give more confidence to the Americans that we can keep the bad guys out. For now, we should develop a plan to use the stimulus funding to make improvements to our gateways and trade corridors. Ninety percent of Canada-US road traffic is crammed through eleven ports of entry. The bridge and two tunnels traversing the Detroit River, our busiest border crossing, have a combined age of 250 years and we need to give priority to the planned new bridge and tunnel improvements. We should also dust off the Canada-US partnership idea – a Clinton era initiative that focused on local border community cooperation and joint planning to improve the flow of people and goods.

While the zeal for climate change remains, the politics of the situation means that Congress is unlikely to give the Administration the legislative action it wanted before Copenhagen. The reality is that the public puts jobs before environmentalism. Half of American energy comes from coal and many of the members representing these districts are Democrats who are looking with increasing anxiety to 2010 and the midterm elections. The president has not been able to convince Americans on the promise of 'green jobs', moreover his priority now is not climate change but rather health care reform. The Chinese, Indians and other emerging nations having decided there is no advantage in showing their hands.

Meanwhile the price tag for the adaption fund to help developing countries in the transition to carbon reduction keeps rising – a new UN report put the wealth transfer tax at somewhere between \$500 and \$600 billion – and such proposals will only encourage US senators who voted down Kyoto to keep their distance. Testifying before Congress last week, US climate negotiator Todd Stern observed "Let me say bluntly that the tenor of negotiations in the formal UN track has been difficult." The chances are increasingly remote that the Administration will be able to offer Copenhagen more than good intentions, regulatory reform, and a stalled congressional legislative package.

On balance, the time delay will serve Canadian interests. Jim Prentice has done much useful work in bringing coherence to our previous non-position, but we could use more time to get our own act together and to advance the 'clean energy dialogue' with the US that was launched in February.

Meanwhile, we should be aggressively marketing our achievements in the technology of sustainability through, for example, the joint Canada-US carbon sequestration project in Weyburn. Why not a trade show of Canadian energy and environmental technology at Copenhagen? Hydrocarbons, including the oil sands, continue to be a vital element in America's national security energy supply mix. We should point out to the president that there are other markets for our energy and that we are actively considering a pipeline to the Pacific.

Both nations need to spend a lot of money to get their integrated electrical networks in shape. A useful takeaway from Washington would be a commitment to joint, complementary action on

'smart grid' infrastructure. It is also a file that Gary Doer knows well, having negotiated the sale of electricity and the planned construction of Bipole III from Manitoba to the Midwest states.

On the international files, Afghanistan is likely to be a conversation in mutual frustration around the continuing tragic loss of troops and despair over both Afghan corruption and the difficulties of trying to marry development and democracy in a land where there is no durable peace. With the doubling down, Afghanistan has become Obama's war. As he considers further reinforcement, he will be interested in the Canadian perspective in what he has labeled a 'war of necessity', but which is increasingly seen as a quagmire by both right and left. Speaker Nancy Pelosi spoke for most Americans when she declared this week that "there's little support in the country or the Congress for sending more troops to Afghanistan." Canadians may not be the only ones leaving Afghanistan in 2011.

Nuclear proliferation has long kept American presidents awake at night. Obama has moved nuclear deterrence to the top of the national-security agenda and his efforts in Iran, North Korea and Russia underline its importance as an organizing principle in his foreign policy. Uranium is a key ingredient to making bombs and Canada produces about a quarter of the world's supply from mines in Saskatchewan. Why not proclaim stewardship from 'cradle to grave' for all Canadian-mined uranium? Like the increasingly successful campaign on blood diamonds, Canadian leadership would be a powerful force in persuading other suppliers (Australia et al) to follow suit. As an initiative it would be as valuable a contribution to international peace and security as peacekeeping.

Next year we host the G-8 as Chair and with the G-20 meeting that President Obama will host in Pittsburgh next week, now is the time to start melding the two groups and one that the president will readily endorse. As the president observed at Aquila, "we have to update and refresh and renew the international institutions that were set up in a different time and place. Some – the United Nations – date back to post-World War II. Others, like the G-8, are 30 years old. And so there's no sense that those institutions can adequately capture the enormous changes that have taken place during those intervening decades."

Canada is well placed to bridge the shifting balance as the world simultaneously shifts and reorganizes to accommodate the reality of the emerging nations – China, India, Brazil, South Africa, Mexico and others – while re-invigorating and redefining the Atlantic relationship. What better place than Huntsville to formally launch the new concert of powers that is sufficiently representative to effect change?

Inevitably, some of the infatuation with Obama has dissipated, both in America and abroad, but the presidency remains our best access point into the American system. Not that we can ignore either Congress or the states. The prime minister should make a separate visit to Capitol Hill and begin a regular series of meetings with the First Branch of American government. We have never devoted enough time or effort to either Congress or the states. Recent improvements including the expansion of our network of consulates, a focus on advocacy, recognizing the utility of the relationships between legislators as well as between provinces and states (the 'hidden wiring of the relationship') and appointments like Ambassador Doer help us to improve our game. Managing the American relationship requires care, even more so when America is at war and enduring economic turmoil.



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