

## **“Engaging the Obama Administration ”**

Barack Obama’s visit to Ottawa restored an important tradition of U.S. Presidents making Canada their first international port of call. The timing could not have been more apt. With the global economy sinking deeper into recession, and the unrelenting flow of bad news, there has seldom been a greater need for bold and creative leadership to make the best of a relationship that is the lifeblood of the Canadian economy and the foundation of our security.

Judging from the public aspects, notably the joint Press Conference, the two leaders had a constructive discussion and set some clear direction for future collaboration. Canada now has a unique opportunity to build on the positive tone with a more inspired sense of partnership. In briefing U.S. journalists on their return from the Ottawa meeting, Deputy Secretary of State James Steinberg described the tone of the meeting as “excellent”, adding, significantly, that “there was not a narrow focus on little issues. It was really a very strategic discussion, two countries that had common problems and were looking for common solutions.” That is the most effective manner of engagement. What is also noteworthy is that key Ministers are being tasked to ensure that effective action follows on the key issues of economic recovery, energy and the environment and global security, including primarily Afghanistan. As Jim Travers observed recently in the Toronto Star, it is now up to the Prime Minister to decide “what Canada wants most from the U.S. and (to go) after it with the singular passion and energy politicians usually reserve for the pursuit of power.”

Managing relations with the U.S. is the most vital element of Canadian foreign policy. In fact, it transcends foreign and touches virtually every aspect of our domestic policy as well. Equally, this all-pervasive relationship usually arouses strong, sometimes visceral, emotions among Canadians which in turn pose serious challenges to those in government. These attitudes or neuroses rarely converge with reason. More often than not, they prompt our government to try to “keep some distance” or seek to differentiate from the U.S. in order to accentuate our differences. Not surprisingly, therefore, periods of substantial collaboration at the government level have been spasmodic. Even though history demonstrates tangible success from a positive

approach - whether on trade or the environment or security - the political rewards on the homefront tend to be elusive. Canadians may generally expect their government to manage this relationship effectively but they have profoundly different views on how this should be done. Minority governments do not make matters any easier.

The arrival of a new administration and a new Congress in Washington provides a golden opportunity to recalibrate Canada's relationship with the United States and engage its political leadership in the pursuit of a mutually beneficial agenda. We need to resist the temptation of presenting the Obama administration with a wish list of things we want the U.S. to do for us. Resist, too, the temptation to whine over irritants. Instead, we need a strategy rooted in Canada's national interest that embraces issues where Canadian and U.S. interests intersect and where firm direction and mature dialogue would deliver results. Given that Obama is even more popular in Canada than he is in the U.S., I believe that our government has greater latitude than ever in initiating a substantive dialogue, at least for now.

Understandably, much of the discussion between the Prime Minister and the President focussed on the immediate task of working sensibly to chart a path out of the deepening economic recession – not with disruptive lunges into protectionism but with actions that enhance the heavily integrated nature of our two economies and give confidence to consumers and investors alike. No two countries have greater potential to cooperate pragmatically on the economic agenda but short-sighted, unilateral manoeuvres by either can be damaging to both. Made in the U.S. policies or “me too” made in Canada mirrors of those policies will not get the job done.

Both countries have adopted stimulus packages of unprecedented size. Only time will tell if they will succeed in lifting us out of the grips of the deepest recession in a generation. If cooperation fails to take hold, the dangers for Canada would be massive. The Buy American provisions in both the House and the Senate stimulus bills were clear examples of the risks. These may not have been aimed at us but, as is so often the case, Canada would have been sideswiped by them. The ideal solution was obviously to eliminate the Buy American conditions altogether. Robust efforts made by the government, vigorous lobbying by a powerful coalition in Washington and, no doubt,

the decisive intervention of President Obama produced a compromise, requiring conformity with the U.S. international trade obligations. Not perfect by any means but, if implemented in good faith, this should help prevent the unravelling of our integrated North American market.

The difficult birth of the U.S. stimulus package revealed much about the dynamics of power in Washington. The President should not have been surprised by the antics in Congress. The powerful message of change that carried him to victory in November hit some serious speed bumps along the Washington beltway. It was the “full Monty” of partisan politics on display. (No wonder he chose to visit Canada ... in February.) After his appeals for bipartisanship fell on deaf Congressional ears, the President displayed impressive skill using the bully pulpit to rally public support. The resulting legislation is a heavy mish-mash, a product of the Washington sausage factory. But the important point is that Obama’s popularity carried the day. The stimulus bill is not the end of the story. The financial sector rescue, the housing packages and the measures to be proposed for the automotive sector still pose stern challenges for presidential leadership. What is certain, however, is that the future of the Obama presidency now hinges squarely on the success or failure of the package as a whole.

The economic challenges in the U.S. are actually more severe than those in Canada. Problems in finance – public and private – underscore the adage that, particularly in America, “nothing exceeds like excess.” But, as Bank of Canada Governor Mark Carney has stated, it is important to remember that we need the U.S. to succeed because our future prospects for growth depend directly on the strength and stability of the U.S. economy.

The gravity of the economic challenges does not mean that the American market model is shattered. But their system of financial regulation may be. Sensible reform and more effective oversight to prevent excesses at all levels is urgently needed and corporations need to recognise that they have obligations that transcend short-term profit objectives. A new “era of responsibility” is definitely in order.

There is cynicism and fear at all levels – and not just about government – and no sign yet that the flurry of rescue packages will restore confidence or stability. Each day

brings more grim news. This will pass eventually but the effect may be like that of kidney stones before real relief is apparent. Even pessimists have to believe that the massive amounts of funding being dispersed will ultimately have some salutary effect.

Apart from the need for concerted action to spur recovery, and for vigilance against the perennial peril of protectionism, the most urgent bilateral issue calling for more inspired leadership is the growing congestion along our so-called “undefended” border. Too many new procedures, fees and obstacles have been added, all in the name of security, but equally all serving to frustrate and delay efficient movements of people and goods between our two countries.

The border hassle is a problem that would benefit from more balance between legitimate concerns about security and the underlying mutual benefit to be derived from smooth access across our border. Initiatives to make the border “smart” have, more often than not, led to dumb and increasingly dumber impediments. Ironically, while many Europeans have succeeded in dismantling virtually all internal border control procedures, Canada and the U.S. are marching sternly in the opposite direction. That makes no sense.

Border security has become, in a sense, economic protectionism wearing a new dress. The infrastructure at our border is as antiquated as the procedures for entry and exit. We should be making creative use of technology and the infrastructure stimulus to establish new, more efficient, customs facilities, introducing 21<sup>st</sup> Century pilot projects at the new Detroit-Windsor bridge and at Gateways on the West and East Coast that could serve as models for wholesale reform.

The security dimension is important and not just for the U.S. As our Prime Minister signalled explicitly in the joint Press Conference - and mainly for American listeners - we see any threat against the U.S. as a threat against Canada and will act accordingly. It was reassuring, too, that the President acknowledged the importance of coming to grips with border issues.

But, when the new Director of Homeland Security stated that the Canada-U.S. border is “a greater terrorist threat than the Mexican border”, we need to react in a

straightforward fashion. (Presumably, the increasingly violent drug war near Mexico's northern border arouses concern of a different kind.) In any event, we need to separate myths and perceptions about our border from facts and real flaws. Where there are identifiable gaps in our system, they need to be closed.

We have a long history of intelligence cooperation with the U.S. It should be enhanced with more consistent, more efficient and more coordinated surveillance mechanisms. Security is, at its heart, a matter of mutual trust. We should also explore the scope for more stringent security procedures on our perimeter – our external borders – extending NORAD to land and sea, as well as air, in order to ease monitoring and congestion along our internal border.

If this requires a certain amount of harmonization on things like immigration and refugee policies as well, that too should be explored. The benefits far outweigh the allure of differentiation for the sake of differentiation. Dramatic action is needed but it will only happen if there is firm and persistent political will from the top to break the 'iron rice bowl' mentality that feeds current practices.

And, speaking of iron rice bowls, we have literally hundreds of different regulations affecting products from virtually every sector of our economy – including, notably, some of the most integrated ones like autos – that serve no practical or public policy purpose other than to preserve a few jobs and give some officials the distinct claim of being different.

Examples range from differences on frozen orange juice to seat belts, threat immobilization devices, meat grading and health standards for livestock. All beg the basic question "Why must they be different for Canadians and Americans?"

There is regulatory sludge in the energy sector as well. The fact that hundreds of millions of dollars have been spent on the MacKenzie pipeline before one inch of pipe has been laid speaks for itself.

When it comes to financial regulations, however, as Newsweek recently reported and President Obama himself acknowledged, there are things we do in Canada that Americans may wish to emulate.

There should be a concerted effort to harmonize regulations and standards where it makes practical sense to do so.

One of the most significant outcomes of the Obama visit to Ottawa was the commitment to pursue a dialogue on clean energy with emphasis on new R&D, new technologies and a more efficient electricity grid. I am encouraged that the two leaders signalled a desire to explore a more practical route to progress on what are really two sides of the same coin and which also bear fundamentally on our mutual need for economic recovery. In both Canada and the U.S., policies affecting energy and the environment cry out for coherence and prudence. If we continue to tackle the challenges on each with a spaghetti bowl of different approaches at the state, provincial and federal levels – we will undermine both our integrated economy and our shared environment.

What do we know about the energy and climate change priorities of the Obama Administration? To call them ambitious would be an understatement.

From a Canadian perspective, the most significant proposals are to:

- eliminate the U.S.'s current oil imports from the Middle East and Venezuela combined within 10 years;
- increase fuel economy and vehicle emission standards;
- establish a national low carbon fuel standard and bio-fuels mandate;
- ensure that 10 percent of U.S. electricity comes from renewable sources by 2012, and 25 percent by 2025;
- prioritize the construction of the Alaska natural gas pipeline;
- and implement an economy wide cap and trade program to reduce greenhouse gas emissions by 80 percent by the year 2050.

No-one should underestimate the challenges the President will face in moving any of these proposals through Congress. He is not the first by any means to advocate “energy independence”. “Coal” and “car” states most affected by carbon caps are already hurting. They are “swing” states to boot and the next Congressional elections are only 21 months away.

What the two leaders seemed to acknowledge in Ottawa was that:

- Reducing Greenhouse gases is not just about reducing demand, but increasing clean energy supply;
- Reducing emissions is going to take time and technology;
- Climate Change is not just about cleaner transportation and heating fuel, but cleaner electrical power – not just oil, but coal;
- Both countries intend to keep competitiveness concerns in mind – not just between Canadian and U.S.-based firms; but between firms doing business in our integrated economy and those located in the rest of the world, including in China, India, and neighbouring Mexico; and
- North American leadership on climate change will be futile, in the absence of meaningful participation from the developing world, particularly the major emitters.

It was interesting to hear President Obama speak about the carbon footprint of not just the oil sands but also coal. With good reason: data for 2005 shows that emissions from the thermal power plants in each of **27** American states individually exceeded the total emissions from the oil sands. Total emissions that year from America’s predominantly coal-fired power plants were more than **50** times greater than from the entire oil sands complex. Emissions from American landfills were **4** times greater. Emissions generated by the U.S. cattle herd alone in 2005 outstripped the oil sands by **3** times.

These statistics in no way diminish the challenge of the oil sands, particularly in light of future development. What they do show, however, is that Canada and the U.S.

have a joint responsibility to develop technologies that reduce the carbon footprint from fossil fuels of all kinds.

Prior to the recent meeting, there was much talk about Canada seeking some sort of exemption for the oil sands. Others were making hollow threats about turning off the taps flowing south. The issue of energy security should be about Canada being part of the solution to the twin American objectives of reducing its dependence on less reliable sources of oil and increasing its supply of clean power. It should not be a threat. Nor is it much of a lever for Canada in any event, as Andre Plourde of the University of Alberta, among others, has stated. A bluff may work on occasion in poker but rarely in international commerce.

That being stated, we need to ensure that we are not taken for granted as the primary supplier to the U.S. market to which the major oil companies are and will undoubtedly be fully committed. We need every bit of negotiating leverage that we can muster. It would help, therefore, if we were to establish the necessary infrastructure to diversify our customer base for energy exports and encourage new investment from additional energy customers, notably those in the increasingly important Asian economies. The value chain economics and basic demand forces have to work of course but the best leverage of all is when there are competing demands for what we produce.

A recent study published for the Canada West Foundation urged the broadening of our energy horizon and the launch of discussions for a North Pacific Energy Framework including Canada, the U.S., Japan, South Korea, China and Russia. Discussions within such a framework would provide Canada with the opportunity to defend a more robust international trading system for energy aligned with Canadian interests. In my view, the study's recommendations warrant serious study. I might question whether a new organization is the best approach; others will quail at the thought of entering into any agreements with the Russians or the Chinese. But, fresh thinking and new direction are needed. Business as usual is the not the answer for energy or any sector.

Where does our government stand? Last month, Environment Minister Jim Prentice laid out the government's strategy. It is to make environment policies instruments of economic renewal and national development; and to engage the U.S. as much as possible in a coordinated approach.

He made the case that a shared reduction target and common cap and trade system would respond pragmatically to concerns on both sides of the border about climate change and competitiveness; and to the reality that 10% of Canada's GHG emissions are from energy products we export to the U.S. He pointed out that a cap and trade system is a necessary but not sufficient tool. We need to work as well on shared targets on low carbon power generation, a biofuel mandate, fuel efficiency standards and even a low carbon transportation fuel standard for all of North America based on emissions measured over the complete lifecycle from production to tailpipe. In sum, a Canada-U.S. agreement on energy and climate change should begin with a serious dialogue and a degree of coordination leading to shared targets and timetables, standards and mandates rooted in science and common sense, and ideally a common carbon market.

But, first and foremost, we need a clear consensus in Canada, notably between Alberta and the Federal Government, on measures that would be effective and yet not catastrophic at a time of recession. That would improve the prospect for an intelligent accord with the U.S. We also need to work diligently with the U.S. Administration and the Congress to ensure that their environmental initiatives (Green America) do not translate into new forms of protectionism.

The government is also committed to work towards an effective multilateral climate change agreement. A common Canada and U.S. strategy on climate change would significantly strengthen our joint hands multilaterally. Effective means that all major emitters of green house gases have to be part of the agreement. This means China, India, Mexico among others have to be on board for any agreement to make sense. Credible U.S. leadership will be critical to any global consensus.

We have to get this one right. It will be tricky, extremely tough and very time-consuming but the rewards of getting it right should be patently clear to each of you.

Just as clear as the damage we can do to one another through neglect or myopic actions by one without regard to the other.

The Arctic is a region where Canada and the United States have shared interests and common responsibilities not only on energy and the environment but also, (as recent Russian antics suggest), on security as well. Without compromising our respective legal claims in any way, we should give clearer commitments and a sharper focus to the stewardship needs of our joint northern perimeter.

The potential for a more inspired partnership across a range of major issues is clear. It is now a matter of will, persistence and leadership. Personalities can make a difference. Remember, though, that the substance of our relationship – economic, security, environment – transcends personalities and is deeper and richer than that of any other bilateral relationship. These very same national interests should rise above narrow partisan posturing in Canada. Moreover, for a new U.S. Administration looking for early momentum to deal with major challenges – domestic and global – what better place to start than with its Northern neighbour. A time of economic crisis may in fact be the best time politically for bold, bilateral action. I agree with Obama's Chief of Staff who said, "You never want a serious crisis to go to waste."

The lead will have to come from Canada and will require equal parts of patience and perseverance on the part of our Prime Minister. If, however, we choose to be "correct" rather than inspired, we should not be surprised if we elicit little more than a polite acknowledgement of our existence essentially as the source of much of America's cold weather.

There is, potentially, a broader dividend from a bold, strategic approach. Those who crave a stronger role by Canada in world affairs should never forget that our most important outlet for influence on global affairs is in Washington. And influence in Washington can give us real, not rhetorical, influence globally. Our involvement and sacrifice in Afghanistan gives us more credibility than many in helping the U.S. find a solution that is comprehensive and not exclusively military, and which ultimately transfers responsibility to the Afghans themselves. We should reinforce the diplomatic and more intensive civilian approach the U.S. is now adopting in order to validate our

sacrifices to date and bring greater stability to one of, if not, the most dangerous place on the planet. That is very much in the Canadian tradition of diplomacy. We also have common interests in our own hemisphere and on many other international issues where a combination of trust, credibility and respect can yield real influence.

Obama does have an enormous reservoir of good will from which to draw. He is refreshingly smart, articulate and cool under pressure – all prime qualities of leadership. (And, he even likes beaver tails!) His election sent a powerful message to the world about American democracy. As his reception in Canada showed, many people, including many non-Americans, want him to be successful. He offers a genuine beacon of hope at a time of great pessimism about both politics and economics. The customary optimism and resilience of Americans is being tested now as never before and I believe it is very much in Canada's interest to do what we can to rekindle those qualities, move bilateral relations to a stronger footing and help restore the best of America to the world.