

THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

# INSIDE POLICY

MARCH 2019

## FACING THE POPULIST MOMENT

How fear and anger are warping  
Western politics and what  
Canada can do in response

### Also INSIDE:

The benefits  
of pipelines

Stimulus bill  
comes due

Money  
laundering  
tidal wave

Combating  
foreign  
influence





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THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

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# From the editors

**P**opulism has been acutely felt in a number of countries – from the UK’s turn towards Brexit to the election of Donald Trump in the United States to the rise of right-wing populist governments across Europe and beyond.

Canada has so far not felt the sting of populist discontent, but it is certainly not immune from these forces. As **Sean Speer** writes in our cover story, a proportionate political and policy response to these disruptive public sentiments will require drawing from both sides of our ideological spectrum.

Both **Linda Nazareth** and **Philip Cross** point to the prospect of a global economic slowdown that will likely only increase the urgency of such a response. **Cross** also raises the less-than-stellar track record of central banks in maintaining financial stability. Canada’s economy is furthermore hampered by inefficient carbon taxes and legal/regulatory uncertainty around pipelines, as noted by **Cross** and **Joseph Quesnel**.

Indigenous communities are particularly concerned about the environmental assessment process for natural resource projects, which are important to their own livelihoods – a point also raised by **Quesnel**.

According to **Nigel Rawson**, the government’s proposals on pharmacare do little to fix the problem of transparency and accountability in the current system. It also raises the prospect that Ottawa is moving in the direction of a national pharmacare scheme. If that is pursued, **Speer** foresees new problems for policy-makers.

**Marcus Kolga** argues that more needs to be done to safeguard our election system from interference. **Kolga** and **Josh Gold** also describe the dangers posed by Russian disinformation. Yet, as **Kaveh Shahrooz** notes, we must also be on guard against other countries, such as Iran.

China poses a particularly acute challenge to Canada, especially when it comes to our telecommunications network. For that reason, **Christian Leuprecht** and **David Skillicorn** recommend banning Huawei from our future 5G network. **Ivy Li** also outlines the dangers that Huawei poses to Canadian citizens who have ties to China.

We need to be honest with our mistakes in dealing with China – from our appeasing attitude that is examined by **Charles Burton** to what **Arthur Cockfield** describes as our willful blindness to Chinese money laundering.

We should also reassess how we approach other countries. As **Shahrooz** notes, the left’s failure to be honest about the nature of the Maduro regime in Venezuela is a good case in point.

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# Public needs to know pipelines are the best way to go

*Ottawa should reduce legal and regulatory uncertainty over pipelines projects.*



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## Joseph Quesnel

The issue of increased pipeline capacity was front and centre on Parliament Hill in February, as protesters with a truck convoy originating from the West converged on Ottawa recently to push legislators to end delays on critical pipeline projects.

Provincial politicians – in response to federal inaction on pipelines – are acting on their own.

Just recently, Alberta Premier Rachel Notley announced the province will spend \$3.7-billion to move landlocked Alberta oil to market by rail. Alberta intends to ship about 120,000 barrels of oil per day by 2020 through agreements with Canada's two major railways, Canadian Pacific and Canadian National.

To be fair to Premier Notley, this is not the government's preferred course of action. She clarified, rightly, that the best long-term solution is to invest in new pipeline capacity to coastal ports so that it

can be exported to foreign markets and get the best price for oil and gas producers.

Oil and gas producers are increasingly forced to transport their product through less efficient, and ultimately less safe, means of transport.

Unfortunately for everyone, however, major pipeline projects such as Northern Gateway, Energy East and Keystone XL were either killed or seriously hampered. Ongoing pipeline projects such as the Trans-Mountain pipeline expansion also remain stalled.

Investing in rail is a stop-gap measure for producers. Unfortunately, it is also the costlier route, with oil by rail costing three times more than pipeline.

To be quite clear, both rail and pipelines

are safe overall. According to informed observers, Canada is said to have one of the safest transportation systems in the world. Also, given the recent decision to phase out older rail cars that are more prone to accidents, transporting by rail will become even safer over time.

But, if you had to choose, pipelines are by far the safest means of transporting crude oil and other flammable liquids. Right now, Canada has more than 840,000 kilometers of pipelines that cross interprovincial and international borders, with very little major incident. In terms of annual frequency of accidents, data from the Transportation Safety Board of Canada (TSB) – the

“Pipelines are by far the safest means of transporting crude oil.”

*Continued on page 32*

# The problem with the carbon tax

*North America has always been difficult terrain to cultivate support for consumption taxes.*

## Philip Cross

Opposition to a carbon tax has mushroomed in a short period of time, suggesting it needed little water to sprout and grow. This would not be surprising to carbon tax advocates if they had been more rooted in the importance of local circumstances in gaining public acceptance of new policy regimes. North America has always been difficult terrain to cultivate support for consumption taxes, of which the carbon tax is the latest variant, while it has long been fertile ground for their opponents.

Proponents of a carbon tax ignored a fundamental difference between the tax regimes in North America and Europe. European nations prefer consumption taxes such as value-added taxes (the counterpart to Canada's Goods and Service Tax, or GST) to income taxes. North America relies much more on income taxes while resisting consumption taxes, despite the endorsement of the latter by most economists.

The enmity of Europeans to direct taxes has its historical roots in authoritarian rulers who used such taxes to fund unpopular wars. Given this background, it was easier for governments in Europe to sell consumption taxes to the public, although persistently weak incomes appear to be undermining support for a carbon tax to judge by France's recent 'gilets jaunes' protests.

In North America, income taxes were introduced to finance the First World War, and then raised substantially to bankroll the Second World War and the Cold War. All these wars had broad public support, and so income taxes were at least grudgingly accepted. The pronounced progressivity of the income tax system encouraged public

support because of the appeal of making the rich pay more.

There is no national sales or value-added tax in the US, reflecting a hostility to indirect taxes that dates back to the Boston Tea Party and the American Revolution. In Canada, the GST has always been unpopular. The Harper government was elected in 2006 on the promise of reducing the GST, and polls show most Canadians would follow BC's 2011 referendum in voting against it if given the chance.

Economists argue that taxes on consumption are more efficient than income taxes. However, they have not made the case persuasively with most North Americans. Until they do, they are going to face a wall of public skepticism and resistance. Pointing to Europe as an example



*Opposition to a carbon tax has mushroomed in a short period.*

of the greater efficiency of consumption taxes is hardly convincing to a public that associates Europe with bloated bureaucracy, low productivity, high unemployment and widespread tax evasion.

Economists have ignored the public's basic perception that while consumption taxes may be more efficient, they are inherently unfair since they lack the progressivity of the income tax system. If proponents of a carbon tax had been more in tune with the skepticism of North Americans to indirect taxes, they would have framed their arguments to address concerns about equity rather than an exclusive focus on efficiency.

The proposition that a carbon tax is

more efficient itself is highly dubious in practice. A tax on carbon emissions was supposed to be offset by lower income taxes. This almost never occurred because the administration of carbon taxes was left to cash-strapped provincial governments, which used them in a tax grab to bolster their own sagging finances. Rising overall provincial tax levels prevent advocates from relabelling carbon levies as a price on pollution and not a tax.

The greater efficiency of a carbon tax regime also is contingent on governments removing all other vestiges of command and control regulation of carbon emissions, ranging from mandatory standards for vehicle gas mileage to closing coal-fired power plants. No government is remotely willing to renounce such regulations simply to satisfy

academic requirements for more efficiency. Nor has any government taken steps to extend carbon taxes to a tariff on carbon imports; without that, we are imposing a carbon tax on our exporters, putting them at a competitive advantage, while allowing carbon imports to enter without a penalty.

The result is a hodgepodge of carbon taxes, extensive regulations and subsidies, and high levels of income tax which have not lowered carbon emissions or improved tax efficiency even as they hampered the competitiveness of Canadian industry against US firms. ❁

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Philip Cross is a Munk senior fellow at MLI. This article first appeared in the Hill Times.

# Rethinking how to deal with populism and its discontent

*A proportionate political and policy response to populism will require that we draw from both sides of our ideological spectrum.*



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## Sean Speer

In this article, I wanted to speak about some of the most important questions facing our societies.

Why are large shares of our populations turning to new and disruptive political vehicles? What does it say about our current political and policy frameworks? And what can and should we do about it?

These questions transcend ideology and partisanship. They're bigger than the typical

tensions between efficiency and equity, freedom and equality, and Liberal and Conservative (or Democrat and Republican) that we're accustomed to.

We aren't merely talking about competing political preferences between the 40-yard lines of public debate. There's something more profound going on. Our basic frameworks are under strain.

Some of these disruptive public sentiments are no doubt unjustified. They reflect the forces of ignorance, demagogu-

ery and possibly worse. But the idea that the present populist moment can be principally explained by a combination of crudeness and racism is, in my view, a cop-out. It's a dodge by intellectual and political leaders. It's an attempt to persuade ourselves that our basic assumptions are right, and the public is wrong.

A mix of more redistribution and better communications isn't an adequate answer to what ails our politics no matter how much we tell ourselves. It behooves

those of us who believe in liberal democracy – on the Left and the Right – to think more fundamentally about how to make our economies, societies, and politics more inclusive and responsive.

Our answers will differ based on our priors and preferences. That's both healthy and inevitable. But this ought to be a shared project. Too much is at stake.

I just referred to our differing priors. Let me start with mine. I think it's useful – both for the purposes of being transparent and recognizing potential blind spots.

I have a technocratic mind. I'm predisposed to thinking about these issues through a lens of government and public policy. In so doing, I can neglect the role of norms, institutions, and other societal factors.

I grew up in an entrepreneurial household and tend to think about these issues through the lens of economic utilitarianism. In so doing, I can neglect non-economic forces such as loneliness or an individual's search for belonging and meaning. I can also as a result overemphasize the role of personal responsibility and underemphasize the existence of structural barriers in our society.

I believe in the efficacy of markets, the role of incentives, and the benefits of dynamism. But I can also underestimate the threat of corporate concentration, the short-term costs of growth maximization, and the individual and community downsides of what Joseph Schumpeter called "creative destruction."

I'm a temperamental conservative, which means that I'm skeptical of radicalism and utopianism. Economic, social, and political progress generally comes in the form of incrementalism rather than a big bang, which invariably leads to inadvertent consequences. The risk, of course, is that my resistance to change can cause me to fall victim to a status quo bias.

I could go on. But I think you get the picture – I'm a pretty orthodox conservative thinker.

Or at least I was. The past 36 months have caused me to undergo an ongoing process of introspection. I'm still a conservative. In fact, in some ways, I have become more conservative. But, in others, I've started to think more fundamentally about what the rise of populism tells us about conservatism and a renewed agenda of inclusion and responsiveness.



*There are increasingly few industries or professions where those without post-secondary education can earn a good living.*

It's been a complicated journey. It has led me in new and different directions. And it's far from over. But this exercise of self-analysis is now guiding my thinking about politics and policy.

### **Why populism?**

I started by asking: why populism?

I recognize that there are competing interpretations of contemporary populism. Some argue it's principally a manifestation of economic anxieties. Others argue it's driven primarily by cultural anxieties, including "status threat" by majority populations.

This is a nuanced and evolving empirical question. Harvard economist Dani Rodrik (who one might argue has been the most proactive and serious thinker on these questions) spoke at the University of Toronto late last year and argued that the two are inextricable.

He's, of course, right. But, at the risk of simplifying it, I tend to err on the side of the former explanation. Remember educational attainment is the best determinant of Trump voters. That is to say, the single best predictor of Trump voters is that they didn't go to college. The same goes for Leave voters in the United Kingdom.

This is consistent with research

about the growing relationship between education and labour market outcomes. Those without post-secondary education tend to be in jobs that are most prone to trade-induced dislocation and automation and ultimately face the highest levels of precarity.

It is intuitive, isn't? We just have to look around us. General Motors's lay-offs

in Oshawa is merely the most recent and regrettable example.

We're going through a process of "skills-biased" change whereby developed economies are paying larger returns for cognitive skills and educational credentials and have less demand for more routinized or basic skills. The result is that there are increasingly few industries or professions where those without post-secondary education can earn a good living and have economic security.

The rising wage gap between those with post-secondary education and those without it – more than 55 percent in Ontario (\$55,216 versus \$85,645) – is evidence of this trend.

It's no surprise therefore that high-income Canadians tend to be highly educated. Two-thirds of the top-1 percent of earners have a university degree (versus 20.9 percent of those above 15-years old without post-secondary education). And this is hardly unique to Canada. Research by the bipartisan Hamilton Project in the United States finds that workers with a college education are now the majority in the top two income quintiles.

Education has thus become the greatest source of differing outcomes

and opportunities in today's economy. It has increasingly come to trump more conventional determinants of wealth and opportunity such as race or family structure.

### **What does it mean?**

The upshot is that we have an economy that will continue to pay higher returns to those with certain credentials and skills but that undervalues physical strength, hard work, and other aptitudes that were more market-

manifested itself not just in our economy but also in our culture and politics should hardly be surprising. The consequences have been well-documented on the Left and the Right. We have observed growing evidence of wage stagnation, financial insecurity, and place-based dislocation.

In turn we've observed increasingly destructive behaviour among working-class populations and a growing turn to non-conventional politics. These trends are,

The key here is the following: Economic opportunity is increasingly bifurcated based on one's education levels and geography. It's important to emphasize that this is unique in modern history. The economics of credentialism and geography have never been stronger.

### **What can we do about it?**

It, of course, leads to the question: what can we do about it?

The progressive predisposition to redistribution may be well-intended. But I would submit that it's an incomplete agenda. Not only will it fail to fundamentally address populist demands, which are more about broad-based work and opportunity than state-supported consumption, according to research by a group of Yale scholars. It can also come to harm the economic dynamism that's at the root of modern society.

I don't think this tension can be underemphasized. Analysis by Paul Krugman and others defending Alexandria Ocasio-Cortez's proposal for a 70-percent tax rate for high-income earners fails to address the efficiency trade-offs of such high marginal tax rates. Their analysis is predominantly concerned with the revenue intake. But such analysis fails to account for the effects on entrepreneurialism, innovation, and so on. The result might be higher levels of equality but the costs in the form of less dynamism could be significant.

At its core, this article is about the inherent tension between economic security and economic dynamism. How we respond to this question will, in my view, determine our politics for the years to come.

There are some empirical considerations to bring to bear, including the benefits and costs of high marginal tax rates, for example. But fundamentally this is a normative question where both the Left and the Right have something to offer.

A proportionate political and policy response will require that we draw from



able in the past. The winners in this new economy fall into the former camp; the losers into the latter.

The twin trends of globalization and technology have disrupted or threatened traditional sources of middle-class opportunity, including manufacturing employment.

One proof-point: a recent Ball State University study found that the US manufacturing sector, if it kept 2000-levels of productivity and applied them to 2010-levels of production, would have required 20.9 million manufacturing workers rather 12.1 million workers. That's nearly the equivalent of the productivity-driven destruction of every job in New York City.

That this scale of disruption has

*Globalization and technology have disrupted or threatened traditional sources of middle-class opportunity.*

in my view, and the view of various other centre-right thinkers including Charles Murray, Ed Glaeser, and Nick Eberstadt, inextricably linked.

both sides of our ideological spectrum. The Left's emphasis on institutional barriers to social mobility and the role of public policy to break them down will be an essential component. So too is the Right's thinking about the role of families, the dignity of work, and the limits of state action. This cannot be an all-or-nothing proposition.

### ***A constructive response to populism***

I want to conclude with some of the key issues that I think we must confront in the coming weeks and months to arrest the trend towards unrooted populism on the Left and the Right.

My comments aren't about tinkering on the margins. They reflect a growing view that we require more fundamental changes to our economy, society, and politics, which is an odd conclusion for a conservative. But, as I mentioned in my introduction, my thinking is still being refined on this issue.

In this vein, I'm afraid that you'll need to settle with a series of questions rather than answers.

First, the current episode of globalization (including what Dani Rodrik has called "hyper-globalization") has harmed certain industries, regions, and people in western countries. Yet it has also contributed to the most significant reduction in poverty in human history. How should we judge a policy framework that increases domestic inequality but lowers global inequality? Are we prepared to trade-off lower inequality inside our borders even if it involves less income and wealth in the developing world? How do we think about this tension?

Second, redistributive tools can help to distribute welfare gains stemming from globalization from the so-called "winners" to the so-called "losers" in the form of higher tax rates and accompanying cash transfers. Is this a sustainable strategy? How can we properly measure the efficiency-equity trade-off? Are higher tax rates on high-income earners justified merely as a political initiative – even if

the empirical argument is weak? And, for how long will the losers be prepared to accept a policy that's focused on their consumption and not the inherent needs to be productive?

Third, inequality seems to be a motivating force in our politics. How do we define inequality? Should we care about it? Why? Does it even respond to a public demand or do people want work and opportunity (e.g., Paul Bloom's argument)? There seems to be a false assumption that greater redistribution will solve the problem. I disagree. People rightly want fairness but that's different than equality. And there are ultimately bigger trade-offs between dynamism and security here than people are prepared to concede.



*Are we willing to absorb welfare losses to provide more employment security for certain workers? What are the policy implications?*

Fourth, Canada has achieved world-leading rates for educational attainment. Nearly 60 percent of those between the ages of 25 and 64 now have a post-secondary degree. This amount will grow even higher due to demographics, improved post-secondary access, and the possibility for further "nudges" to target low-income and other marginalized voices. But recognizing that a considerable portion of the population will never attain post-secondary education (PSE), what should policy-makers do to respond to their needs and interests? What does a pathway to a non-PSE future look like? How should we reconceptualize public funding to support the two-thirds who go to university or college and the 35 percent who don't?

Fifth, more localism would help to expand political responsiveness and accountability. Yet some organizations are skeptical of localism due to bad experiences and concern that certain communities and group will be excluded. How can we advance an inclusive vision of the Catholic idea of subsidiarity? What is the role of government to facilitate such an approach?

Lastly: if you accept my premise that the redistribution of welfare gains resulting from a dynamic economy are a necessary yet insufficient response to growing public sentiments about economic security, what more structural changes are we prepared to accept? Are we willing to absorb welfare losses to provide more employment

security for certain workers? What are the policy implications? Will the public actually support an agenda that may produce less dynamism, less wealth, fewer choices, and higher prices?

These, in my view, are the fundamental questions that we must confront. Especially the final one.

I'm afraid that I don't have answers. I'm still on a journey. But we all need to start to reason through them. We're at a crossroads. It's exciting, dynamic, serious, and unsure. The best we can do is ask people of good faith to engage and participate. This is democracy at its best. 🌟

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Sean Speer is a Munk Senior Fellow at MLI. This article is based on Sean Speer's keynote remarks for the Democracy Xchange Conference on January 27, 2019.

# Past stimulus threatens long-term economic growth and political stability

*The slowdown in the global economy has only reinforced the public perception that the system is “rigged.”*

## Philip Cross

The global economy is clearly slowing down, leading organizations such as the IMF and the OECD to recently downgrade forecast growth for 2019. Italy has already returned to recession, its third in the past decade. The UK is not far behind as an agreement on Brexit flounders. Real GDP in Germany has fallen over the last two quarters and France was slowing amid growing ‘yellow vest’ protests late in 2018. The temporary stimulus from last year’s

tax cuts is wearing off in the US. Canada is tottering on the brink of recession, despite the benefit of continued growth in the US. China is experiencing slower growth as both exports to the large industrial nations slow and as its trade war with the US continues.

For a decade now, western nations have adopted extraordinary monetary and fiscal stimulus without restoring growth to its long-term trend. Europe is following Japan in becoming mired in chronic slow growth. Three times Canada has managed to raise its growth to 4 percent, only to see growth slip back to 1 percent or less each time.

The failure to restore satisfactory growth risks fanning populist critiques about whether the extraordinary stimulus was worth the long-term costs which are becoming more evident. The stimulus itself was unprecedented. Most central banks in the advanced market economies lowered interest rates to near or even below zero. Then they tried quantitative easing, engaging in a vast expansion of their balance sheet to lower interest rate spreads and bid up the price of assets.

Meanwhile, governments reinforced monetary stimulus with massive fiscal stimulus. In the case of US and the UK, this pushed government borrowing to

*The failure to restore satisfactory growth risks fanning populist critiques.*

levels normally associated with major wars when national survival was at stake, but government debt levels have risen across Europe and North America.

It is arguable that these extraordinary monetary and fiscal measures were necessary and effective in minimizing the damage from the Great Financial Crisis. However, the problem is that these measures were only intended for short-term use at the depths of a crisis. Instead, most countries maintain this stimulus 10 years later, greatly amplifying the distortions they introduce into financial markets and reducing potential long-term growth.

*Continued on page 33*



# A recession could be different this time for workers and unemployment

*An economic slowdown could be a real possibility in the near future.*

**Linda Nazareth**

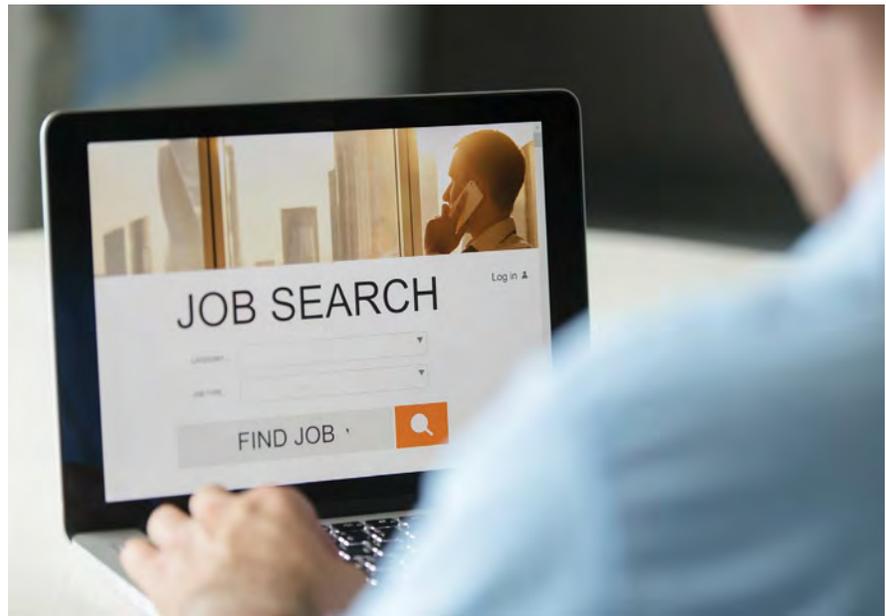
What if you had a recession and workers got hit hard but the unemployment rate hardly changed at all?

Strange as it sounds, it is a real possibility. Given the transitions we are seeing in terms of jobs, the next recession could play out very differently than past ones. That is something worth thinking about as we face a year of economic uncertainty.

What we do know is that a decade or two from now, we will get the work done in a different way. Full-time workers, part-time workers, remote workers, gig workers, robots and cobots – or collaborative robots – will all likely be in the mix, but in altered proportions to what they are now. While the general feeling is that there is plenty of time to plan for that reality, a recession could test that assumption.

To be sure, we are already seeing a transition to tech and away from traditional work models, but to date those shifts have been cushioned by a couple of things. For one, over the past few years North America has pretty much been on top of the business cycle when it comes to hiring. It took some time, but we ended 2018 with some of the lowest unemployment rates seen in decades in both Canada and the United States.

While those very low unemployment rates reflect a strong demand for workers, they also illustrate that those workers are in relatively scarce supply. Owing in part to an aging work force, the supply of workers has been expanding slowly compared with previous decades. In 2018, labour force growth (which measures the increase in the



number of people seeking work) was 0.8 percent in Canada, about half the pace as the 1.6 percent seen in 1998. The fact that labour supply is growing slowly has given workers an advantage that they might not have had otherwise.

But maybe we should not be looking at unemployment rates. Once upon a time, you could count who was working and who was not, and it was a reasonable measure of economic health. Now, we have millennials who are on contracts when they want to be permanent employees, baby boomers driving Ubers rather than in full-time work, and an abundance of workers unhappy with both their compensation and their jobs. Those people could already tell you that the economic statistics do not tell you everything.

On balance, traditional employers have mostly stuck with a full-time worker model. Getting the best workers, goes the

usual train of thought, requires hiring them and giving them benefits. The recession of a decade ago might have moved many companies away from that model, but the situation of the past years was slowly moving them back. If pushed to the wall by a recession, however, huge changes may be worth implementing, whether that means gig-ifying the work force in earnest or investing heavily in technology.

So let's talk about that threat of recession, because, well, everyone else is. For sure, politicians and central bankers could be all-powerful and all-knowing. If so, no worries at all, we may have killed the business cycle once and for all and recessions may well be a thing of the past. If you are a tiny bit more skeptical than that (as are, apparently, the financial markets), a slowdown of some kind could

*Continued on page 33*

# Is Ottawa's Pharmacare announcement based on ideology or evidence?

*When it comes to pharmacare, policy-makers should focus on a targeted solution for those who don't have drug insurance.*

## Sean Speer

The release of an interim report by the Trudeau government's Advisory Council on the Implementation of National Pharmacare provides us new insight into the independent panel's thinking, the probable focus and tone of its eventual recommendations, and the government's possible policy response.

The short report pulls on different threads and arguments to arrive at the conclusion that Canada needs a new national drug agency and a national drug formulary. The case for this direction bounces between the panel's concerns about broad-based insurance coverage, the cost of drugs, and the usual laments about the so-called "patchwork" of policy and preferences in a federal country. An emphasis on "evidence-based" decision-making seems to conceal an ideological commitment to nationalizing drug insurance in Canada irrespective of the ultimate argument.

The interim report contains a few relevant assumptions, observations, and directional intentions. It is worth addressing them in sequence.

### ***Twenty percent of Canadians are uninsured or under-insured***

MLI research has found that approximately 10 percent of the population are insured. Presumably the other half are reflected in the panel's characterization of "under-insured."

Notwithstanding these differences, it is relevant for the panel and federal policy-makers to concern themselves with this 10 to 20 percent. No one would dispute that.

*The current mix of private and public insurance is providing coverage to 80 percent of the population.*

Who are they? Why do they not have insurance? What should be done to try to expand insurance coverage to them?

We know a bit about them.

A large share is neither poor nor old. Otherwise they would likely be covered by provincial programs that target low-income people or seniors, such as Ontario's Trillium Drug Program.

They do not receive insurance coverage through an employer. This presumably means that they work for small firms or are involved in non-traditional employment circumstances such as the "gig economy," non-profit work, or self-employment. MLI research estimates that 2.8 million (or roughly 80 percent) of the non-insured cohort falls into the latter category.

These characteristics mean that this cohort is generally working-age and earning income that exceeds the phase-out thresholds for public programs. It does not mean that policy-makers should not be concerned about them. But it might change how we think about the role of government and public policy. While this is a unique cohort, it is not necessarily a vulnerable one.

And it is worth emphasizing that even using the panel's 20-percent figure, policy-makers should not neglect that the current mix of private and public insurance is providing coverage to 80 percent of the population. Various polls tell us that the vast majority of this group is generally satisfied with the access and costs of prescription drugs.

The point is even the panel concedes that we have a targeted problem rather than a large one. It seems to me that the policy-making process ought to start from this premise.

### ***Canada's spending on prescription drugs is unsustainable – and nationalizing it will reduce costs***

The panel warns that Canada's overall spending on drugs – including both by public and private insurance plans – is unsustainable and requires reform. The basic idea here is not just that we have an access problem for vulnerable groups but that aggregate spending on prescription drugs must be constrained.

This amounts to a second and different argument. The problem is now defined as being principally about cost rather than access or coverage.

It may be understandable that governments are concerned about drug costs. They are the fastest-growing health-care expenditures for the provinces and territories and we know that overall health-care costs are contributing to long-term fiscal sustainability challenges for virtually every sub-national government in the country.

But it not obvious that (1) we should be concerned about drug costs more general-

ly, especially in relation to the benefits that prescription drugs and pharmaceutical innovation provides or (2) having government assume responsibilities for these costs will produce better outcomes – including with respect to overall cost.

On (1), the fact is that Canada is a wealthy society and research shows that wealthy societies consume more health care. It does not mean that there is no room for efficiencies. But the idea that there is an inherent problem with a society spending a lot on prescription drugs is not self-evident. Especially since we need to judge those costs relative to the benefits that patients derive. This point is excluded from the interim report.

As for (2), it is similarly unclear that a government-centric model will be cheaper and more efficient unless, of course, drug coverage under a national formulary is considerably narrower than most people receive under their private coverage.

This point cannot be overlooked: the underlying assumption that a public model would be less costly than the status quo (which is one of the panel's key arguments) requires that the government would engage in a form of rationing whereby its formulary will necessarily be narrower than under private plans.

“Controlling cost” is a euphemism for narrowing choice and the responsiveness of the overall health-care system in the name of minimizing public costs. National pharmacare proponents are free to make this argument. But they ought to be more transparent about it rather than hide behind “an appropriate group of experts” who will decide which drugs are covered and which are not.

The inevitable (and even deliberate) outcome is that some people will no longer have access to the medicines that they currently use due to the government's judgment about costs.

It is the same impulse and mechanisms that lead to long wait times and poorer access to medical technologies in our hospitals. Cheaper? Yes. More equitable?

Arguably. But these benefits come at the price of less choice, poorer access, and an obstacle to the trend of personalized medicine. The panel should more transparent about these trade-offs with Canadians.

### ***A national drug agency would act as a steward of national pharmacare***

Past MLI research has examined the role of the federal government in health care over the past 150 or so years and the lessons from past experiences with health-care reform. Our analysis shows that overly ambitious plans for federal coordination and a “uniform national experience” more often than not impede meaningful reform than enable it. This should come as no surprise.

 ***The panel (and government) are moving in the direction of a national pharmacare scheme.***

Ottawa has no unique expertise or perspective on these issues. Why would a panel chaired by a former provincial Health Minister assume that uploading these responsibilities would produce better outcomes? The panel provides no rationale for such an assumption.

There is also the basic point that these issues are complicated and not prone to simple solutions. Progress will need to involve a process of trial and error, dissemination of best practices, and ongoing adjustment and refinement. Centralizing the reform agenda in the name of a “uniform national experience” short-circuits bottom-up experimentation and risks the top-down diffusion of bad ideas and harmful reforms. The right approach here is to “let a thousand flowers bloom” rather than a new national drug agency.

Where do we go from here? The interim report's focus and tone (and the Minister of Health's participation in its release) is a sign that the panel (and government) are moving in the direction of a national pharmacare scheme. The recent federal budget's affirma-

tion of the panel's preliminary recommendations for a new national drug agency and national drug formulary similarly point to it. We will have a clearer picture when the panel releases its final report and accompanying recommendations in June.

Past MLI analysis has argued for a different approach, one that sees a role for public policy to support those without insurance in a way that is rooted in federalism.

We should be clear: this does not diminish the need for a policy solution or even a role for the federal government. We just believe that the ultimate response ought to be focused and decentralized as opposed to broad-based and centralized.

Policy-makers in particular should focus

on a targeted solution for the small yet real share of the population that presently does not have drug insurance. This should come in the form of a combination of a redesign of the Medical Expense Tax Credit at the federal level (which is a creative policy proposal that MLI has advanced for the past several months) and possible expansions of provincial programming similar to the OHIP+ model. These incremental would make progress on the 20-percent problem that the panel has rightly identified in its interim report.

A new national bureaucracy and accompanying formulary risks disrupting the parts of the current model that are working and in turn producing new problems that may be larger than the one that policy-makers are facing now. This would be a big mistake that is more a reflection of ideology than evidence.

The Advisory Council and the government have roughly four months to get it right. Let's hope they do. 🌟

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Sean Speer is a Munk senior fellow at MLI.



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## Pan-Canadian pharmaceutical alliance lacks transparency and accountability

*Negotiations to limit drug prices should not limit patients' access to innovative drugs.*

### Nigel Rawson

The Trudeau government is concerned about the affordability of prescription drugs. One of the tools used to contain drug costs is the pan-Canadian Pharmaceutical Alliance (pCPA), which negotiates prices for medicines with pharmaceutical manufacturers on behalf of the federal, provincial and territorial governments' drug plans. But we know little about the pCPA's processes, practices and governance because the organization is shrouded under the cloak of the Council of the Federation. Canadians need to know how the pCPA impacts both the costs of drugs and their access to them.

The pCPA was established in August 2010 by the premiers of all provinces and territories except Quebec, with the objectives of increasing access to drug options, achieving lower drug costs and consistent pricing, and improving consistency of coverage criteria across Canada. Five years elapsed before the pCPA became a formalized entity with a permanent government-funded staff and office. The Quebec and federal government drug plans joined in 2016.

Apart from some brief material around its policy directions regarding new and subsequent entry biologic drugs and guidelines about how negotiations should be approached by pharmaceuti-

cal manufacturers, little information is publicly available about the pCPA. The only regular information released by the pCPA is monthly active and completed negotiation lists; for example, 46 negotiations were active and nine were completed in December 2018. Otherwise, its procedures and actions lack transparency.

We do know that once the Canadian Agency for Drugs and Technologies in Health (CADTH) and/or the *Institut national d'excellence en santé et en services sociaux* release a final recommendation about whether a medicine should or should not be reimbursed by public drug plans, the pCPA decides whether a negotiation about the drug's pricing will take place.

If the pCPA proceeds with a negotiation, governments must decide whether they want to join it. For new brand-name drugs, all governments tend to participate but they are not obliged to do so.

Government participation in a negotiation indicates that, should an agreement be reached between the lead province and the manufacturer, both parties will sign a letter-of-intent that implies the drug will be listed in any subsequent Product Licensing Agreement (PLA) with an agreed price and reimbursement listing criteria. The drug plans are, however, not mandated to list a medicine that has been successfully negotiated. As a result, an agreement does not guarantee listing in all participating plans. Using the basis of the letter-of-intent terms, manufacturers must negotiate individual PLAs with

support business planning.

Pharmaceutical companies are, however, denied access to the confidential information shared between CADTH and the pCPA. As a result, the pCPA has an important advantage if negotiations have begun. A 2017 analysis of recommendations for rare disorder drugs indicated that an objective of the CADTH-pCPA integration is to ensure that a negative recommendation results in no pCPA negotiation, while a positive one sets up factors for inclusion in the negotiation – usually the need for a sizeable price reduction.

Although little information is available about its governance, the pCPA is clearly only accountable to the federal, provincial and territorial governments. While individual negotiations are understand-

by rare disorders with the objective of developing recommendations for actions to remove these barriers. This provides an opportunity to gain greater insight into the workings of the pCPA.

In its brief, the pCPA identified three key challenges that it sees as important to its work. These are:

- Evidence limitations – the evidence available about a drug’s efficacy, safety and cost-effectiveness at the time of negotiations is often considered by the pCPA to be inadequate with which to make drug coverage decisions.
- High drug pricing – extremely high prices threaten drug program affordability, sustainability and subsequently patients’ access to these drugs.
- Gaps in national alignment and coordination of processes.

*The panel (and government) are moving in the direction of a national pharmacare scheme.*



each jurisdiction, which may introduce additional criteria or coverage limitations based on the individual government’s assessment of its needs and resources, as a condition of funding.

Since May 2016, pCPA representatives are observers in meetings of CADTH’s expert health technology assessment committees and their advisory groups. They receive confidential and redacted information from CADTH’s recommendation evaluations prior to the pCPA deciding whether and how negotiations with manufacturers will proceed. According to CADTH, the purpose of this connection is to provide an opportunity for the pCPA to receive relevant information on drugs reviewed by CADTH and to

ably confidential, the lack of transparency about issues surrounding negotiations is concerning because the pCPA is an agency of Canadian governments. As such, the pCPA receives public funding but, because no apparent parliamentary oversight of it exists, the organization is protected from the usual means of government accountability such as freedom of information requests, whistleblowing, Auditor General of Canada reviews, and ombudsman or integrity commissioner inquiries and investigations.

In December 2018, the pCPA submitted a brief to the House of Commons Standing Committee on Health (HESA), which is undertaking a study of barriers to access to treatments for Canadians affected

Manufacturers of costly drugs for rare disorders are expected by the pCPA to “provide adequate evidence around their drug products’ safety and efficacy to support coverage decisions.” Pharmaceutical manufacturers’ evidence about the safety and efficacy of a medicine is designed to satisfy the regulatory requirements of the United States and Europe because their populations represent the two largest world markets. The same evidence is normally used in the company’s submission for regulatory approval from Health Canada.

Data about efficacy and safety are not developed to satisfy the needs of a public drug insurance price negotiating organization in a small market like Canada. The

pCPA's expectation is unlikely to be achieved. Rather, it is more probable that a manufacturer whose regulatory evidence does not find favour with the pCPA, which usually leads to a demand for a sizeable price reduction as the starting point of negotiation or a decision not to negotiate, will delay bringing its drug to Canada or will avoid the Canadian market.

In its HESA brief, the pCPA raises concern about high prices for drugs for rare disorders. The development of a new drug has been estimated to cost over \$2.8 billion. If the drug is only likely to be used by a few hundred patients worldwide, a high price is necessary not only to recoup its development expenses but to provide investment for future drug developments and reward the company's investors. In addition, if a company knows that, when it enters a pCPA negotiation, it is likely to be faced with a demand for a major price reduction, there may be a tendency to maximize the starting list price.

The pCPA states that its requirement for manufacturers to justify their extremely high prices has yet to be fulfilled – a remarkable complaint from an organization whose own transparency is sorely lacking. The pCPA's emphasis on drug cost-containment is demonstrated by its support for a national regulatory approach to price control through the Patented Medicine Prices Review Board. In its submission to the reform consultation process of the Board, the pCPA strongly recommended that the United States be replaced as a comparator by New Zealand, Australia, South Korea or Brazil, countries where drug prices are strictly contained.

The pCPA claims that its negotiations have led to estimated annualized savings of \$1.98 billion. This is likely to be a theoretical amount based on reductions between opening and final prices achieved in negotiations for both brand-name and generic drugs. Set against this "saving" is the significant cost of the pCPA to

Canadian taxpayers – \$50 million from the federal government and at least \$3 million from the provinces and territories over the past two years for an office of just 10 people.

The question arises as to where this money is going? I am not aware of any other government program with this number of employees and an annual budget of this scale that has no requirement to provide publicly available reports on its finances. In contrast, for example, the Patented Medicine Prices Review Board had a budget of just over \$11 million in 2017-18 and 60 full-time equivalent positions, which are reported publicly.



*The pCPA's role is not to propose national pharmaceutical policy but to negotiate prices.*

The pCPA's HESA brief concludes with a request for the federal government to provide funding for expensive drugs for rare disorders and to implement the proposed Patented Medicine Prices Review Board economic tests. The pCPA is, thus, encouraging the federal government to implement policies that further undervalue innovation and that would significantly decrease Canada's attractiveness as a jurisdiction to which pharmaceutical manufacturers want to bring their new medicines. The pCPA's role is not to propose national pharmaceutical policy but to negotiate prices.

The pCPA and its government owners should be focused on improving the transparency and accountability of the organization. Transparency and accountability are fundamental principles of good governance, which require a process to report, explain and answer for the consequences of decisions so that all stakeholders can see how and why they

were taken. While its accountability is to its funders, the pCPA's support from the public purse should require it to have a degree of accountability to all Canadians, especially patients.

A comprehensive annual account of issues confronted by the pCPA and how it dealt with them, together with details of its income and expenditure, would be a valuable step forward. More broadly, since the federal government claims to be focused on both the affordability of prescription drugs and their accessibility, the pCPA should demonstrate to Canadians that its negotiations to contain the costs of new drugs are not limiting

patients' access to innovative drugs that could extend their lives or improve their quality of life. The pCPA receives a generous amount of taxpayer's money, but its inadequate transparency and accountability continue to be of concern.

The recent proposals put forward by the Advisory Council on the Implementation of National Pharmacare would integrate the pCPA, together with the PMPRB and the Canadian Agency for Drugs and Technologies in Health, into a national drug agency but would not resolve the lack of transparency and accountability unless a plan to change the current approach is introduced. Given the federal government's inclination towards obfuscation, the outlook is not encouraging. ❁

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*Nigel Rawson is a pharmacoepidemiologist, a pharmaceutical policy researcher, president of Eastlake Research Group and the author of Drug Safety: Problems, Pitfalls and Solutions in Identifying and Evaluating Risk.*

# Indigenous people are upset with the Liberal government's Bill C-69, too

*Bill C-69 would impact the immediate livelihoods of Indigenous communities.*

Joseph Quesnel

Indigenous communities are still upset with the government's Bill C-69, legislation intended to speed up and streamline the large project assessment process in Canada but which may end up frustrating the process further.

Earlier in the year, a convoy of more than 30 trucks met in northern Alberta to support pipelines and oppose Bill C-69. The event was billed by *CBC News* as the first Indigenous-led rally in support of energy resources. The event was organized by the Region One Aboriginal Business Association (ROABA), a group that promotes the interests of Indigenous-owned businesses in northern Alberta.

The Senate energy committee studying the bill has decided to take the bill on the road for more public consultations. That is likely the best decision for First Nations and indeed all Canadians, as these major projects – especially critical oil pipelines to get Alberta oil to foreign markets – are in the national interests of Canada.

Indigenous communities also know only too well what is at stake, economically and socially, for their people. ROABA is not the only Indigenous organization that supports pipelines and opposes Bill C-69.

“The Indian Resource Council (IRC) is urging all Senators to take a stand and oppose Bill C-69,” said IRC President and CEO, Stephen Buffalo, a member of the Samson Cree Nation. “Bill C-69 would wreak havoc on Indigenous economic development in many parts of Canada.”

Also, on the ground level, Chief Roy Fox



has said that the majority of tribal leadership of Treaty 7 (the treaty area covering southern Alberta) is against Bill C-69.

What kind of havoc is Buffalo alluding to? Well, First Nations and Métis communities – especially the communities located in proximity to the oil sands region in Alberta – have much invested in oil and gas. They contract with the oil companies to provide services, they enjoy procurement arrangements with them, and they provide young Indigenous workers to energy projects.

The Canadian Association of Petroleum Producers (CAPP) has assembled some recent data (as recently as 2017) on Indigenous involvement in the oil and gas sector. CAPP said that almost 12,000 workers in the oil and gas sector in Canada identified as Indigenous. They also found that \$55 million in payments were made by various partners to Indigenous governments from

conventional oil and natural gas activity.

In procurement alone, oil sands companies spent \$3.3 billion on procurement deals from Indigenous-owned companies. In terms of clear social impact, oilsands producers put \$48.6 million into Indigenous community investments. These funds allow First Nations and Métis communities to set their own priorities and control their own destiny.

Finally, CAPP estimates that six percent of apprentices working in Canada are Indigenous people working in industry-related trades.

For Indigenous communities and businesses, Bill C-69 is not just an interesting academic or policy question, it would impact their immediate livelihoods.

Bill C-69 does engage Indigenous

*Continued on page 33*

# Central bankers can blame themselves for undermining their political “independence”

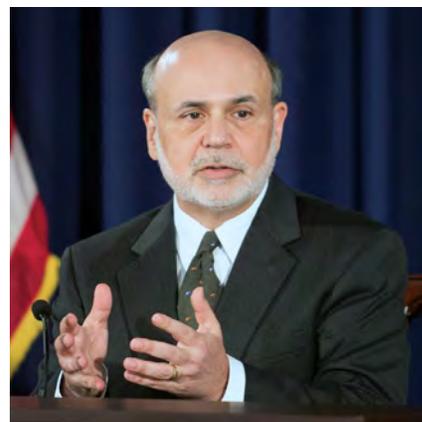
*There is nothing sacrosanct about the guarantees of central bank independence.*

Philip Cross

The sniping at Bank of England Governor Mark Carney from the UK’s Tory backbenchers over his fearmongering about the perils of Brexit and President Donald Trump’s threat to replace Jerome Powell as chair of the Federal Reserve Board for raising interest rates have both renewed concerns about preserving the independence of central banks from political influence. Of course, central bank independence would not be necessary if monetary policy were guided by mechanical rules and fixed formulas instead of the discretion currently exercised by central bankers. But rules have been out of favour since the early 1980s when they were revived to stop political meddling and decisively brake inflation.

Trump is hardly the first American president to pressure the Fed to lower interest rates, a time-honoured practice used by presidents Truman, Johnson and Nixon. Ongoing political pressure for easy money helped fuel rampant inflation in the 1970s. The move in the 1980s and 1990s to insulate central banks from politics was one of the many responses deployed to fight inflation. Central bank independence eventually gained widespread acceptance among parties of all stripes, partly because independence by itself helps lower inflationary expectations and, therefore, interest rates.

However, there is nothing sacrosanct about the guarantees of central bank independence. It is not written in any constitution. The political system that granted this independence can also take it



Central bankers: (top left clockwise) Alan Greenspan, Chair of the Federal Reserve of the US (1987-2006); Ben Bernanke, Chair of the Federal Reserve of the US (2006-2014); Mario Draghi, President of the European Central Bank since 2011; Mark Carney, Governor of the Bank of Canada (2007-2013) and Governor of the Bank of England since 2013.

away. This is especially the case if central banks fail to deliver the financial stability, low inflation and improved economic performance that were the promised benefits of their independence.

Since gaining independence, the track record of central banks has been uneven at best. While consumer price inflation has stayed low, central banks have encouraged “rational bubble riding” in financial and

housing markets going back to the late 1990s. The serial stoking of asset-price inflation by central banks whose independence was premised on low inflation and financial stability recalls former Norway Bank Governor Hermod Skånland’s observation in 1988, on the effect of soaring oil prices, that “We carefully plotted a course and then immediately headed in a different direction.”

wikimedia commons

A corollary of central bankers being free from political interference is that central bankers also must refrain from involvement in political debates. After all, if central banks expect to be insulated from politics, they cannot willingly enter the political arena without expecting consequences. In his recent book about central banking, *Unelected Power*, Paul Tucker, a former deputy governor of the Bank of England, points out that if banks

urged Spain and Italy in 2011 not just to lower their deficits but specified that they must do so using spending cuts and tax hikes. It even quietly encouraged Italy to invoke Article 77 of its constitution to ram through emergency measures (ignoring the criticism from Italian courts of the article's overuse). Italy's then-prime minister Silvio Berlusconi accepted the terms but later said the ECB's instructions "made us look like an occupied government."

governor and the modesty of his successor, Stephen Poloz). It began with Greenspan in the 1990s – even though Greenspan's "maestro" reputation lies in tatters today. Next, Fed chairman Ben Bernanke was credited with staving off a depression during the global financial crisis, although the crisis itself revealed systemic problems with both the Fed's bank supervision and persistently low interest rates. The ECB's Mario Draghi was hailed as the saviour of the euro after his 2012 promise to do "whatever it takes" to preserve the currency, but the euro's future nevertheless remains dubious.

By accepting accolades that they are the infallible high priests of global monetary activism, central bankers invite the public to hold them to impossibly high standards. When they fail to live up to those standards, as they often do, they can only invite questions about whether they deserve the independence they demand.

Malaysia's former central bank governor, Jaffar Hussein, once said "Good bankers, like good tea, are best appreciated when they are in hot water." Today, the water temperature surrounding central banks continues to rise rapidly. If public suspicions are confirmed that the lengthy recent stretch of ultra-low interest rates and quantitative easing have only set the stage for rising debt and serious inflation, it would seem inevitable and justifiable that politicians will demand more direct input into monetary policy.

More than independence is at stake. Central bankers risk losing credibility in claiming that exercising their discretionary judgment is superior to the centuries-old wisdom that governments will always try inflating away large debt loads unless they're checked by hard-and-fast rules governing money. Their curtain will have been pulled back, revealing the banking wizards frantically fidgeting with the dials on debt and inflation time bombs. ❁

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Philip Cross is a Munk senior fellow at MLI. This article first appeared in the Financial Post.



Stephen Poloz, Governor of the Bank of Canada (left), with Jerome Powell, Chair of the US Federal Reserve at the Meeting of Finance Ministers and Central Bank Governors, G20, December 2018.

(wikimedia commons)

## Central bankers made their job harder by welcoming the media's cult of celebrity.

want independence, "reciprocally, they should not participate in party politics, even in the private recesses of their minds."

On this score, they have failed miserably. Central bankers in recent years have routinely intruded into politics. Most notably, Carney, while governor of the Bank of Canada, dabbled with the idea of running for the leadership of the federal Liberal party. He further revealed political biases in public pronouncements on everything from the voluntary long-form census to the risks of climate change (both subjects important to the left-wing circles Carney seeks to command).

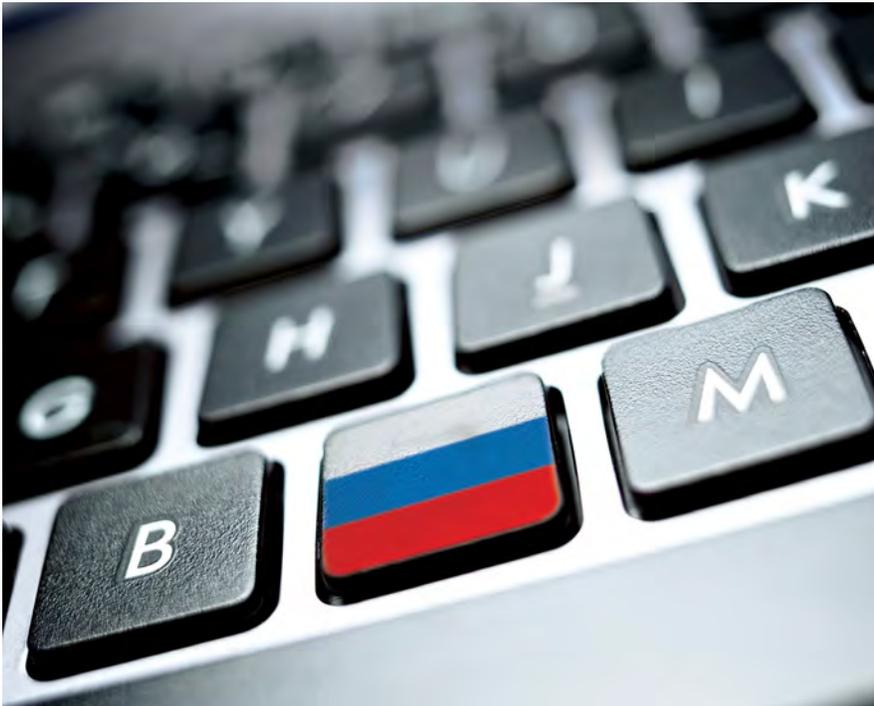
The European Central Bank (ECB), considered by many to be the least political-accountable central bank in the world,

And Alan Greenspan, when he was US Fed chairman, openly lobbied the Clinton administration to cut the federal budget deficit, demonstrating how the tables had turned from the days when presidents were the ones pressuring the Fed, to the point where the Fed was dictating policy to presidents. Today, the extraordinary policies of zero or even negative interest rates and quantitative easing clearly have large political and distributional impacts, yet these policies were adopted with almost none of the public debate that would have buttressed their legitimacy.

Central bankers made their job harder by welcoming the media's cult of celebrity (note the contrasting demeanour between Carney's preening style as Bank of Canada

# More needs to be done to counter foreign interference

*Effective coordination and a transparently non-partisan implementation strategy are still needed to protect our democracy.*



Marcus Kolga

For Western nations, the threat of foreign interference doesn't just mean bad actors working to affect the outcome of an election, but also the systematic undermining of our democracy by sowing discord and breaking down trust in our institutions, media and society. And with a federal election looming, Canada needs to know that it is a target for the kind of attacks we've already seen in Europe and the United States in recent years.

For instance, Russia has plenty of incentive to influence our national debate, especially on issues such as the disintegration of the NATO alliance, eroding Canadian support for Ukrainian sovereignty in Crimea and repealing

*Russia has plenty of incentive to influence our national debate.*

Canadian Magnitsky human-rights sanctions legislation.

While the Kremlin may not have an obvious champion in the coming federal election, attempts to amplify narratives that threaten to divide Canadians, such as those which promote anti-immigration and anti-globalism on both the right and left, will intensify. Similarly, the ongoing

targeting of critics of Russian President Vladimir Putin's regime – MPs, candidates, ethnic groups, NGOs and other prominent activists – will likely escalate, as Russia seeks to discredit them and their positions.

Measures announced by the Liberal government to address threats of foreign interference and disinformation targeting Canadian democracy and elections set a very good foundation for defending Canadian democracy against malign foreign interference. But the ambitious whole-of-government strategy will require complex, high-level coordination in which some vulnerabilities yet exist.

Regulations and specific details about how to curb the spread of disinformation on social media, for instance, are missing from the plan. These platforms have demonstrated a lack of commitment to counter attempts by foreign actors to spread propaganda. Canada could follow Germany's example by regulating social media and holding them legally accountable for the removal of fake accounts and news. Adjusting platform and search algorithms to minimize the promotion of disinformation from known sources is also required.

One of the most important features of the government strategy is funding for digital-media literacy awareness in efforts to promote critical thinking when consuming news from various social-media platforms. Encouraging Canadians to diversify their media consumption and to do so through a critical lens will help build a healthy media environment that is

*Continued on page 34*

# Why Canada's left is wrong on Venezuela

*By supporting the Maduro regime in Venezuela, Canada's left has collectively failed an important moral and political test.*

## Kaveh Shahrooz

An action can be moral, even if it has Donald Trump's support.

That may be an obvious point. But, when it comes to Venezuela, it is seemingly lost on Canada's left-wing politicians and activists.

Mass protests against the socialist government of Nicolás Maduro have rocked cities across Venezuela. Tired of a government that has devastated their country through gross mismanagement, corruption, election-rigging, and human rights abuses – leading to over two million people fleeing Venezuela since 2014 – Venezuelans have risen up and are demanding an end to Maduro's dictatorship.

Their uprising received crucial international support on January 23 when the US, Canada, and several Latin American states recognized opposition leader Juan Guaido, the democratically elected head of that country's National Assembly, as the interim president. The European parliament followed shortly thereafter. Many others have since extended the same recognition to Guaido.

Given their regular lip service to standing with the weak and disenfranchised, one would expect Canada's federal NDP labour unions, and progressive intelligentsia to support Trudeau's position. The Venezuela protests provided an easy opportunity to side with vulnerable protesters battling what Human Rights Watch has called “a devastating human rights, humanitarian, political, and economic crisis their government has created.”



Above: Venezuelan opposition leader Juan Guaido addresses a rally in Caracas, February 2019; left: Venezuelan President Nicolás Maduro.

And yet Canada's left appears to have collectively failed this moral and political test.

Chiming in early, NDP MP Niki Ashton accused Trudeau of standing “with Trump's regime change agenda” and demanded that Canada not “support an agenda of economic or military coups.” Her party's leader, Jagmeet Singh, echoed that view, stating that “Canada should not simply follow the US's foreign policy.” (Singh has since confused matters by refusing to indicate whom he recognizes as Venezuela's president, which puts him at odds with his own party, which backs Maduro.)

Elsewhere on the left, the Canadian Union of Public Employees claimed



Maduro was “duly elected by the people of Venezuela” and rejected “any attempt by the Canadian government to interfere” in

Venezuela's affairs. The Canadian Labour Congress did the same. And Naomi Klein, the high priestess of the Canadian left, tweeted that support for Guaidó constituted "supporting a coup."

These views are consistent with the left's decades-long infatuation with Venezuela's so-called "Bolivarian Revolution." Noam Chomsky, for example, was breathless in praising Hugo Chavez. Filmmaker Oliver Stone went so far as to make a propaganda film celebrating Chavez's legacy. And the UK's Labour Party leader Jeremy Corbyn refused to criticize Maduro even when Venezuela's security forces killed democracy protesters in 2017.

But looking past the slogans, one immediately sees the problems with the left's position.

First, consider their use of the word "coup." Is it a coup when hundreds of thousands take to the streets peacefully to demand their rights? Can it rightfully be called a coup when the protesters are looking to oust an illegitimate leader who was chosen in elections widely viewed as rigged by his own citizens and the international community? And it is surely an unusual coup when the military vows to *uphold the existing structure*. The truth is there is no coup. What is playing out in Venezuela is much closer to a popular revolution, something ostensibly supported by the left.



Demonstrators against the Maduro regime protest in Québec City, February 2019.

hereafter adopt the same approach with respect to US allies (or even the US itself.) But that debate, which would need to consider matters of domestic Venezuelan law and precedents in international law, is a complex one; far more complex than the current "coup" sloganeering of the left.

in the streets of Caracas and elsewhere. In this patronizing worldview, these protesters have no personal or political agency and are misinformed about who is oppressing them. They apparently need Ms. Ashton and Ms. Klein to tell them that they are merely the playthings of the imperialist West.

Finally, consider the argument that Canada would be maintaining independence in its foreign policy by continuing to recognize Maduro. What the argument leaves out is that doing so would only place our foreign policy in line with that of China, Iran, Turkey, and Syria. Given Russian support of Maduro, why is it any more independent for Canada to toe Moscow's line? There is no neutral position on this issue; Canada either stands with the democracies, or the dictatorships.

The left is admittedly right about one thing – there is a significant inconsistency between Canada's talk about human rights in places like Venezuela and our selling of arms to dictatorships like Saudi Arabia. But from this legitimate premise, Canada's left derives precisely the wrong conclusion. Rather than encouraging Trudeau to apply to Saudi Arabia the same standards he is applying to Venezuela, they call on him to ignore the human rights crisis in Venezuela, much as he does with the Saudis.

The Venezuelan regime may soon crumble, hopefully to be replaced by a democracy. If that comes to pass, its support for a decaying dictatorship will be a dark stain on the history of Canada's left. And in allowing their legitimate opposition to Trump cloud their judgment on this issue, they will have no one to blame but themselves. ❄️

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Kaveh Shahrooz is a lawyer and a human rights activist. He is a former senior policy adviser on human rights to Global Affairs Canada and is a senior fellow at MLI.

## Think about what the comments by Niki Ashton and others leave out: the people of Venezuela.

There is, of course, a legitimate debate to be had about the wisdom of the US's adoption of a recognition strategy that lacks a solid basis in the Venezuelan constitution. Reasonable people may, for example, disagree on whether non-democratic countries can

Secondly, think about what the comments by Niki Ashton and others leave out: the people of Venezuela. Focused entirely on the narrative of a US-orchestrated coup, Ms. Ashton and her allies miss the hundreds of thousands risking their lives

# The price of Chinese money laundering

*Chinese money laundering shows the extent to which an autocratic state, awash with cash, dumps its problems on countries like Canada.*

Arthur J. Cockfield

Canada-China political relations continue their downward spiral following the arrest of Huawei executive Meng Wanzhou in Vancouver, with the apparent retaliatory detention and mistreatment of two Canadians jailed in China, the sudden retrial and death sentence of Canadian Robert Schellenberg, the chastising of Prime Minister Trudeau for daring to express concern over this sentence, and threatened “repercussions” if the Canadian government bans Huawei from developing Canada’s 5G network. As a result, Canadians are increasingly asking themselves what sort of government they are dealing with.

A glimpse into Chinese money laundering helps us understand the struggles within an authoritarian state awash with cash, and how it dumps some of its problems on countries like Canada. International money laundering, which is a criminal offence in Canada and China, occurs when individuals ‘clean up’ or launder proceeds from crime by investing in foreign assets so that the dirty monies enter the conventional financial system. More broadly, international money laundering also takes place when a person transfers legally-earned money across a border without disclosure to their home government.

What do we know about Chinese money laundering?

First, this money laundering occurs on a massive scale. According to the *New York Times*, \$1 trillion left China in a year and a



“What began as a trickle twenty years ago has now become a tidal wave of capital outflows.”

half around 2016. Most of this money comes from wealthy Chinese individuals who secretly store away overseas their legally-earned money. What began as a trickle twenty years ago has now become a tidal wave of capital outflows with stories of middle-class Chinese now opening bank accounts in Canada and the United States. In part the amount of money moving offshore can be tied to the incredible economic growth that has raised Chinese household incomes for thirty years.

In many situations, these individuals are violating Chinese domestic law

that prohibits purchasing more than US \$50,000 in foreign currency per year. With this restriction, it could take years or decades to move enough money to purchase, say, a Vancouver single-family home. To dodge this law, Chinese citizens have developed a dizzying array of techniques, including having the money smuggled to Hong Kong or Macau then converted to US dollars, having family and friends help move smaller amounts of money (a strategy known as ‘ants moving their house’), and using underground banks based in China.

The problem is that individuals who move their monies offshore do not trust their own country. They fear that China's economy could tank or the yuan may be devalued against overseas currencies, wiping away most of their savings. Or worse, the Chinese government may unfairly take their money if these individuals fall into disfavor or under the whims of some corrupt official. People from all over the illiberal world engage in similar capital flight activities to protect themselves or their families – although on a lesser scale

counter the capital outflows, President Xi has implemented a series of anti-corruption reforms, including tightening up the banking laws to make it harder to transfer monies abroad and installing video cameras on ATMs.

Yet there are reasons to be skeptical that such measures will affect the interests of powerful Chinese elites. Chinese journalists working with the ICIJ created a separate searchable online database to facilitate identifying offshore corporations and other business entities used by the Chinese

did so by buying Vancouver real estate. An additional \$1.7 billion was laundered between 2013 and 2017 by pumping money into casino earnings. These Vancouver mobsters make and move so much dirty money they make Tony Soprano look like a two-bit crook (TV producers: please contact my agent Michael Levine at Westwood Creative Artists).

In theory, the Chinese government is supposed to be helping reduce the flows of illicit drugs coming to Canada. In reality, the Chinese government is doing little to nothing

## *Chinese money laundering paints a troublesome picture of a country where citizens often do not trust their government.*

compared to these unprecedented flows coming out of China.

Second, Chinese money laundering is suspected to go all the way to the top of the power echelons of the Chinese Communist Party (CCP). In a 2014 report by the International Consortium for Investigative Journalists (ICIJ), a data leak from a Singaporean offshore financial service provider revealed a little less than 22,000 secret offshore accounts held by Chinese citizens (I was a legal consultant working on this leak). Many of the individuals identified within this leak as well as the Panama Papers were family members of the rulers of the CCP, including the tiny group of seven men within the Politburo Standing Committee who run China. For instance, the data leaks showed that Chinese President Xi Jinping's son-in-law Deng Jiagui maintained companies based in secretive tax havens (although the usage of such companies may have been legal).

The problem with the capital outflows is that they drain China of tax revenues and reduce economic growth as resources are deployed abroad, and not at home. To

to transfer monies and assets offshore. In response, the government of China censored this site so that the residents of China cannot access it.

Moreover, a Chinese academic and activist, Xu Zhiyong, who inspired a 'New Citizens' Movement' to increase financial transparency of Chinese political elites, was convicted of "gathering a crowd to disrupt public order" and sentenced to four years in jail.

Censoring the ICIJ website and jailing dissidents does not fill one with confidence that President Xi's anti-corruption campaign is designed to stop top-level money laundering.

Finally, Chinese money laundering is tied to Canada's number one public health crisis, namely the over 4000 fentanyl overdose deaths per year. According to Canadian law enforcement, most of this fentanyl is manufactured by, and shipped from, China-based factories through online sales to Canadian drug users and traffickers. To launder these illegal sales within British Columbia alone, organized crime linked to China cleaned up \$1 billion alone; they

to help – in part due to yet another political conflict, whereby the Canadian government last year refused to allow additional Chinese law enforcement officers to be based in Vancouver to pursue high-profile individuals who have fled China. Senator Vern White, a former police officer, has called for punitive trade sanctions against China until their government acts to stem the production and sale of fentanyl from state-regulated factories.

In short, Chinese money laundering paints a troublesome picture of a country where citizens often do not trust their government and where organized crime benefits from cleaning up illicit proceeds from a drug that is killing thousands of Canadians. It is very much in keeping with the unflattering portrait that the CCP has now shown the world following Meng Wanzhou's arrest, which should remind Canadians of the true face of this rising power. ❄️

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Arthur J. Cockfield is a professor at Queen's University faculty of law. A shorter version of this article appeared in the *Globe and Mail*.



Renée Depoer / iStock

# Huawei, a risk that Canadians cannot afford

*Huawei's involvement in Canada's 5G network would pose a threat to our privacy and to the fundamentals of our democracy.*

Ivy Li

Top intelligence and national security experts from Canada, the US and Australia, as well as prominent US politicians have given stern warnings to our government about the Chinese telecommunications giant Huawei. The US-China Economic and Security Review Commission raises the possibility of Beijing forcing Huawei to “modify products to perform below expectations or fail, facilitate state or corporate espionage, or otherwise compromise the confidentiality, integrity, or availability” of networks that used them.

While most expert warnings focus on threats to national security, intellectual property and commerce, there are equally serious implications to our privacy and the



fundamentals of our democracy if Huawei equipment is used in our 5G networks.

To truly grasp the extent of these risks, we need to look at Huawei in the context of the Chinese Communist Party (CCP). The CCP is a dictatorship that controls 1.4 billion people, or 18 percent of the world population. It is so afraid of its own citizens that it spent 6.1 percent of total government spending on ‘domestic security’ in 2017,

more than its military expenditure, and it plans to roll out a nationwide high-tech social credit system by 2020 to monitor and to shape each citizen's behaviour.

According to Article 7 of the 2017 *Chinese National Intelligence Law*:

*All organizations and citizens shall, in accordance with the law, support, cooperate with, and collaborate in national intelligence work, and guard the secrecy of national intelligence work they are aware of. The state will protect individuals and organizations that support, cooperate with, and collaborate in national intelligence work.*

It means there are no true privately controlled companies, the way we know it, in China.

The founder of Huawei, Ren Zhengfei, was a People's Liberation Army engineer for two decades. Canada's former National

Security Advisor Richard Fadden said publicly that he believes Huawei is acting as an agent of the Chinese state. The detentions of Canadians Michael Kovrig and Michael Spavor by China to retaliate against Canada's arrest of Meng Wanzhou, Chief Financial Officer of Huawei and the eldest daughter of Ren Zhengfei, clearly indicate the close ties between Beijing and Meng and the importance of Huawei to the ruling CCP.

## *We will be giving CCP an immense power to control Canadians who have business or family ties to China.*

Inside China, Huawei is working with the Public Security Bureau in Xinjiang on their infamous Orwellian surveillance system, assisting the Chinese government in their cultural genocide and gross human rights violations of the Uyghur people. In addition, surveillance technology, techniques and experience that the tech companies and the government have developed and perfected domestically are being exported internationally to strengthen other authoritarian regimes and to undermine “the global development of free and open societies.”

The criminal charges Meng faces from the US government and the investigations by media reveal how Huawei likely operates outside China – committing bank frauds and using front companies to cover up illegal activities. In sum, Huawei is not a company that would shy away from helping dictatorial governments to suppress citizens or to use questionable business practices.

### ***The dire consequences for every Canadian if Huawei equipment is used in our 5G networks***

Scott Jones, head of our Cyber Security Centre, who once said Huawei would not be a threat has now admitted that our safeguards

from Huawei equipment are only applicable to 4G and LTE. It means our government won't be able to protect Canadians from the following harms if Huawei is in our 5G:

1. *We will be giving CCP the power to spy on our daily lives on Canadian soil.* 5G is considered the foundation for realizing the full potential of the “Internet of Things” (IoT) because it could be 100 times

faster than 4G in connectivity, has very low latency, and ubiquitous coverage. When 5G is fully rolled out, it will be in our phones, computers, office devices, home appliances, cars, neighbourhoods, shopping malls, public services, government agencies, and more. No Canadian who wants a “normal” life could opt out from the 5G system. If Huawei equipment is used in Canada's 5G networks, we will be stuck in our everyday lives with the CCP. We will be giving an authoritarian regime the power to keep track of our government and our daily lives, to spy on what we have said and done in our own country.

2. *We will be giving CCP an immense power to control Canadians who have business or family ties to China.*

A large number of Canadians have family ties or business dealings in China. Fearful for the safety of their loved ones or reprisal on their businesses have already induced widespread self-censorship among them. If Huawei is in our 5G, just knowing that there is a possibility of being closely monitored in daily life by the Chinese authoritarian regime would be enough to cause many more Canadians to alter their behaviours and silence many more dissenting voices.

This would bring irreversible damage to our democracy and freedom of speech.

3. *We will not be trusted by our allies.*

Canada will become the weak link of the Five Eyes. It will affect the willingness of our allies in sharing intelligence and sensitive security information with us, further weakening the security of Canadian citizens.

The court case faced by Meng Wanzhou is a crude reminder that China is under the control of a brutal dictatorship without rule of law and with no respect for human rights. Our extradition process is well defined. Meng enjoys all of her rights in our legal system since her arrest. The US government has provided evidence for Meng's alleged crime. She has access to the Chinese consulate and a lawyer of her choice. Her bail hearing and the bail rulings were open to public and media scrutiny.

In contrast, no evidence of a crime was given by the Chinese government in the arrests of Kovrig and Spavor. Their access to Canadian consulate is limited to once a month. Their locations of detention are unknown. Kovrig is not allowed to sleep with light off and what happens to Spavor is unclear. Both of them have no access to lawyers.

This is a wake-up call to all of us. If we keep being lured by the evasive “Chinese market” and choose not to stand up to China's human rights violation, it will come back to haunt us. After all, with our export to China at only 4.3 percent and a trading deficit at US \$36.5 billion, we must rethink our China strategy.

A company that is bound by the law to serve the CCP is a risk that Canadians cannot afford. With so much at stake, it is essential that we be cautious. ❁

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Ivy Li is a core member of the Vancouver Friends of Hong Kong (VFHK), a former board member of the Toronto Association for Democracy in China (TADC), and former chair of a community group in Toronto called Design for Democracy (D for D).

# Why banning Huawei is just the initial step for Canada to defend itself

*Banning Huawei from participating in 5G might not deter digital exploitation by China, but it would deprive it of a key advantage.*



Renée Depoens | via iStock

**Christian Leuprecht**  
**David Skillicorn**

**F**or the 21<sup>st</sup> century, communications (the Internet and its successors) and data will be as vital as oil and electricity were for the 20<sup>th</sup> century. Communication networks are the basis of business and industry, and increasingly, of social and political life.

Countries are developing and deploying a growing range of capabilities to leverage the cyber domain for their national interest using such techniques as theft of intellectual property, influencing other nations' internal politics, conducting cyber-espionage, and even developing cyber weapons that can be used to inflict

*“Huawei had already leveraged intellectual property theft to leapfrog technological milestones.”*

the kind of damage that has up to now required more typical weapons.

Sovereignty thus depends on the extent to which a country is able to exploit or defend national networks and assert control over the connectivity that

the global communications infrastructure enables.

The importance of cyberspace to this century is why Huawei has been in the news. Quick to realize the importance of cyber capabilities, China has been strategic in enabling Huawei to compensate for the greater wealth and skill of the US and other Western rivals.

Thirty years ago, Huawei had already leveraged intellectual property theft to leapfrog technological milestones: early versions of Huawei's switches are said to be complete replicas of those developed by Nortel and Cisco, down to the pages of their operating manuals.

Network switches have an unavoidable inside track – they necessarily see all of the

traffic that passes through them. Even when that traffic is encrypted, as most traffic on the Internet now is, switches can analyse the patterns of flow; this so-called meta-data is key intelligence.

They can also slow some traffic, divert it somewhere (perhaps temporarily so that it can be analysed), or even cut it off completely. Can countries in the West trust that Huawei network switches cannot, in

and two of Canada's three large telcos are lobbying aggressively against a ban. Along with the regulatory chill from its 2012 foreign investor protection agreement with China, that explains why Canada has been tepid about cyber defence and readiness measures that impose limits on equipment and service providers.

Since 2013, the Canadian Security Review Program has led to (1) excluding

critical infrastructure systems – electrical grids and oil pipelines – in North America and elsewhere, probing their configurations and possible weaknesses to incorporate into their attack sets.

Banning Huawei is but one in an array of defensive measures that are necessary to raise the state of Canada's cyber readiness: it will not deter digital exploitation by China, nor does it protect from unrelated

## *China refuses to extend reciprocity and has long barred non-Chinese companies from Chinese network infrastructure.*

the worst case, be controlled by Huawei, and ultimately by the Chinese government?

The UK government set up a joint organization between its signal intelligence organization, GCHQ, and Huawei to see if they could reach a workable level of trust in Huawei's equipment. Their latest report suggests this has proven impossible. Even if a switch could be proven to be harmless, all switches must be able to update their software, usually over the Internet itself; something that's innocuous today can readily turn into a vulnerability tomorrow.

In this context, Huawei's repeated claim that no Trojan Horse has been found in its systems is meaningless. Australia, the US, Japan, Germany, France, Poland and the Czech Republic have concluded that Huawei parts put their next-generation communications infrastructure at risk.

On the one hand, there will be a cost to banning Huawei equipment: less competition, higher prices and perhaps a slower build-out of 5G infrastructure. Deutsche Telekom has not raised objections to Huawei – even though one of the US indictments is for alleged Huawei espionage of Deutsche Telekom's US subsidiary –

designated equipment in sensitive areas of Canadian networks, (2) mandatory assurance testing in independent third-party laboratories for designated equipment before use in less sensitive areas of Canadian networks, and (3) restricting outsourced managed services across government networks and other Canadian critical networks. Were selective exclusion to be expanded, someone else will have to provide the infrastructure instead. The array of potential suppliers is small to begin with, which will drive up cost.

On the other hand, there is also a cost to doing business with Huawei. Cyber manipulation poses an existential threat. That is why China refuses to extend reciprocity and has long barred non-Chinese companies from Chinese network infrastructure. The recent Review of the 2018 National Defense Strategy by the United States National Defense Strategy Commission found that the US is likely to lose a war against China or Russia: a pre-emptive cyberattack by an adversary on, say, critical infrastructure would effectively paralyze the US, and its ability to retaliate. We know that the Chinese government has been mapping

vulnerability such as poorly constructed or designed network infrastructure; but it does deprive China of a key advantage.

Expanding the ban on Huawei equipment and services would have been straightforward if it had been made in concert with our allies. The ongoing US push for NATO consensus on Huawei is proving elusive, in part because of the way the US is perceived to be instrumentalizing the issue for political and economic ends. Absent a common allied front to counter China's United Front, Canada's decision is much more difficult, although it is the right thing to do. Slow-rolling the decision so as not to strain the relationship gives China unprecedented leverage and effectively amounts to abrogating Canadian sovereignty under duress of extortion. The integrity of Canada's sovereign democratic decision-making processes and institutions is not discretionary. ❁

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*Christian Leuprecht is Class of 1965 professor in leadership at the Royal Military College and Queen's University, and a Munk senior fellow at MLI. David Skillicorn is professor in the School of Computing at Queen's University. This article first appeared in the National Post.*

# Canada must develop a backbone in its dealings with China

*The years of appeasing China's Communist regime, in the hope of obtaining economic favour, has led us to this horrendous mess.*

**Charles Burton**

China's spurious excuse for suspending some Canadian canola imports recently makes it clear that Ottawa needs to get serious about asserting Canada's interests in diplomatic engagement with this rising global power.

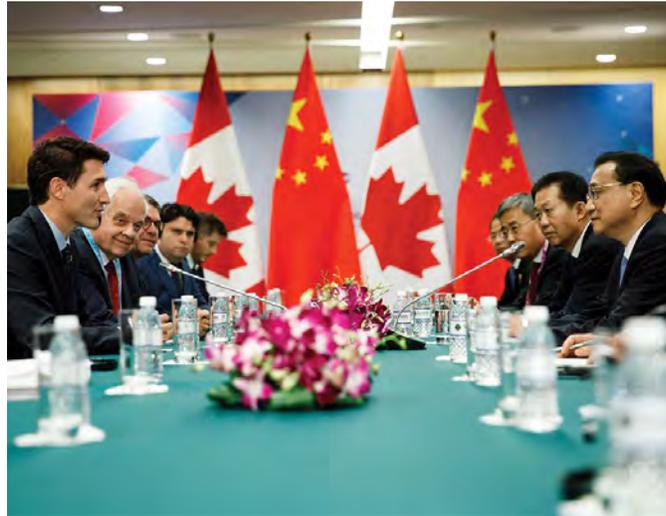
Beijing absurdly claimed that our \$2-billion-a-year canola shipments are riddled with weeds that evidently do not even grow in Western Canada.

This isn't about canola. China is resolved to intimidate and coerce Canada, and wants us to realize this beyond any doubt.

Tragically, this diplomatic shambles is partly of our own making, given the horrendous possibility that Michael Kovrig and Michael Spavor, both detained since Dec. 10, could end up in a Chinese prison for life, or even face a death penalty on bogus charges of espionage – all occasioned by Huawei chief financial officer Meng Wanzhou's extradition case.

Beijing bungled things, too, first by assuming Ms. Meng could land in Canada and not be detained under our extradition treaty with the United States, then by misjudging the ability of Prime Minister Justin Trudeau (who they assumed was a charter member of their Canadian pro-China club) to overrule Canada's judicial process.

Now, China wants to abate any loss of face with a succession of get-tough measures that exterminate any goodwill remaining in the avaricious hearts of Canada's business elite and their political friends. China's Foreign Minister recently said that Beijing



Prime Minister Justin Trudeau and John McCallum, former Canadian ambassador to China, participate in the third Canada-China Annual Leaders' Dialogue in Singapore, November 2018.

(Adam Scotti, PMO)

will take "all necessary measures to resolutely safeguard the legitimate rights and interests of Chinese enterprises and citizens."

The thing is, China no longer wants to comply with the Westphalian system of equal sovereign countries that underlies a rules-based international order, and that is hard for Ottawa to accept. Mr. Trudeau was seriously misled when he thought China would accede to international standards on environmental, gender and labour rights to get a trade deal with a Group of Seven country, but none of his incompetent advisers suffered any consequences for the ensuing fiasco.

Ottawa's feckless appeal to Beijing's moral decency over the Chinese fentanyl manufacturers, whose product kills thousands of Canadians, was met with a Chinese demand to allow a police liaison officer to be installed in China's Vancouver consulate – a request that was rejected over national-security concerns. This impudence squares with Beijing's insistence that

Canada allow Huawei equipment to run our telecommunications networks even though China fiercely restricts foreign components in its telecom systems.

Canada must change the channel, immediately. The current dynamic is poisonous to future Canada-China relations, and damages our credibility with our allies, including the United States.

We made a good start by removing John McCallum as ambassador, who seemed to believe that defending Chinese interests in Canada was as important as representing Canadian interests in China. We need someone who actually understands non-democratic kleptocratic regimes, someone who is fluent in a Chinese language to reach beyond the Foreign Ministry gatekeepers and engage directly with China's power-holders. Would we send an ambassador to Washington to engage Congress who could not speak English?

*Continued on page 34*

# Foreign influence from Iran in Canada is a real concern

*Canada's democracy is under threat from a variety of rogue state-sponsored actors.*

## Kaveh Shahrooz

Are Canada's security services and politicians doing enough to keep Canadians safe from hostile foreign influence campaigns?

In recent months, increased attention has been placed with respect to Russian disinformation and the threat posed by China. But what about Iran?

Two alarming recent stories suggest that Iran may quietly be attempting to sow discord in Canada. And that our security forces have been caught flat-footed.

The first warning came from CBC/Radio-Canada, which analysed nearly 10 million tweets sent by troll accounts, some originating in Iran. While not definitively linked to the regime, Twitter says the accounts were involved in “an attempted influence campaign we identified as potentially located within Iran.”

These tweets focused on issues that hold no obvious interest to Iran: the debate over Canadian pipelines as well as Canadian immigration and refugees. So why were they sent? The most likely explanation is that they were designed to amplify divisions in Canadian society and spread animosity and chaos.

The second alarm was sounded by *Global News*, which recently obtained a CRA letter revoking the charitable designation of the Islamic Shia Assembly of Canada. The astonishing basis for the CRA's action – being litigated before federal courts – was the allegation that the Assembly “facilitate[d] the spread of the Iranian revolutionary ideology in Canada.”

According to the CRA, the Shia



Assembly is “acting as a facilitator organization” to support Iran’s Ahlul Bayt World Assembly (ABWA), a group over which Tehran exerts “a high degree of influence.” ABWA is said to be closely connected to the Iran-backed Lebanese Hezbollah.

At the centre is the charity’s founder, Mr. Syed Hosseini-Nassab, an Iranian cleric now based in Toronto and formerly stationed in Germany. According to *Global News*, German authorities believed Mr. Hosseini-Nassab’s previous Islamic organization was “subordinate to the government of Iran in the dissemination of Islamic revolutionary ideology and pro-regime propaganda throughout Germany.” The CRA appears worried about him conducting similar activities in Canada.

Compounding the worry is that Mr. Hosseini-Nassab has been active in Toronto’s Muslim community, even founding a mosque. In light of recent reports, the RCMP and CSIS should assess whether these community connections have been exploited by the Iranian regime

to spread propaganda or gather intelligence on diaspora members.

What, then, should our policy-makers and politicians do in light of the emerging picture of Iran’s efforts to establish bases in Canada?

The first is to take seriously the long-standing allegations by diaspora Iranians that they are monitored, threatened, and attacked by those seemingly tied to Iran’s government. It has long been rumoured that certain local religious figures, journalists, business people, and organizations are agents of the Iranian regime. Those rumours may not be true in many cases, but the more credible among them should be investigated.

The RCMP and CSIS should also follow the money trail. With documented instances of Iranian embezzlers bringing vast fortunes to Canada, funds may flow into this country to be laundered or put to nefarious uses. Once again, networks

*Continued on page 35*

# How the Kremlin distorts the past to divide us

*Putin's weaponization of the history of fascism and Nazism for propaganda purposes must be rejected.*

Marcus Kolga

Josh Gold

The crimes of all totalitarian regimes that engage in genocide, repression, corruption and the abuse of human rights should be condemned in the strongest terms possible – none more so, of course, than the Holocaust.

Grounded in the importance of this memory and message, we must be aware of and reject any attempts to cynically take advantage of historical issues by those who seek to divide our communities within Canada and to influence Canada's foreign policy towards NATO and nations in Central and Eastern Europe. Marcus Kolga's recent work for the Macdonald-Laurier Institute has shone light on Kremlin attempts to do just that. Yet in his recent blog on the topic for the *Ottawa Citizen*, David Pugliese attempts to characterize this as a kind of Holocaust denial.

Distortion of historical narratives and the use of "fascist" labels were cynically employed as an instrument of Soviet propaganda throughout the Cold War. Anyone who resisted or criticized the Soviet regime or its policies in the West was at risk of being branded a "fascist" in efforts to discredit them. Such tactics weren't only limited to human rights and political activists; many Canadian ethnic groups who fled the Soviet Union were so labelled, in efforts to marginalize their voices and their impact on national debates.

This old Soviet tactic has been revived and used by the Vladimir Putin regime since the early 2000s. In Canada, such cynical weaponization of history by pro-Kremlin



Canadian soldiers guarding the first German prisoners to be captured in Normandy, June 6, 1944.

(Library and Archives Canada / PA-136280) Copyright expired

“  
Of related concern is the very real rise of right- and left-wing extremism and intolerance in Europe.”

propagandists threatens to pit communities against each other and fulfils Putin's goal of undermining the cohesion of our society.

Even domestic critics of Putin are branded as "fascists," as was seen at a 2009 pro-Putin, "Nashi" youth indoctrination camp, where the effigies of assassinated Russian pro-democracy opposition leader Boris Nemtsov and legendary human rights advocate Lyudmila Alexeyeva were topped with Nazi berets and set on wooden pikes. Such derisive mocking, like the prolific use of the "fascist" label, minimizes the heinous

crimes and injustices that Nazi symbols represent.

In some European states, events continue to be organized that commemorate Nazi collaborators. These must be carefully yet firmly condemned, without allowing them to be co-opted as weapons of the Kremlin's information warfare.

Of related concern is the very real rise of right- and left-wing extremism and intolerance in Europe, which represents a serious threat to the existing international rules-based order. Many of these movements are directly supported by the Putin regime, including France's National Rally and Italy's Northern League.

As well, the Kremlin is itself a serial abuser of human rights and free speech. In Russia, public advocacy for LGBTQ rights has been outlawed and in the Russian republic of Chechnya, LGBTQ community members are being rounded up and placed in concentration camps. Anti-Semitism is rampant in pro-Kremlin media; the Ukrainian pro-EU revolution in 2014 is frequently

characterized by Russian propagandists as “Zionist” in their efforts to discredit it.

Any attempts to use history and these victims to drive wedges between Canadian communities or to erode trust in Canada’s trans-Atlantic relations should be viewed with skepticism. The actions of fringe far-right groups should be strongly condemned, but they are the actions of a few, not entire nations, and should not be used as justification to terminate Canada’s participation in NATO’s Enhanced Forward Presence in Latvia or *Operation Unifier* in Ukraine, as some writers have suggested.

It’s one thing to build a historical record to determine whether some individuals or groups collaborated or worked with the Nazi regime. As difficult as it may be for some nations to come to terms with their pasts, such studies are a necessary part in uncovering the truth of a dark

chapter in human history.

But it’s something else entirely when complex historical experiences are cynically used out of context to undermine a government’s current policies. This was clearly on display when the Kremlin launched a smear campaign targeting Canadian Foreign Minister Chrystia Freeland for her strong positions on Russia, using her grandfather who worked as an editor for a newspaper in Nazi-occupied Poland, just as it is with the Kremlin’s frequent references to Ukrainian or Latvian collaborators. Hand-picked facts are not enough; understanding the bigger picture, especially in the context of Russian disinformation efforts, is critical.

As Russian-born University of Toronto scholar Seva Gunitzky notes, when the Kremlin dredges up the past, it’s less about educating “Canadians about the complexity of the history” and more about

de-legitimizing “Canadian institutions and sometimes Canadian policies” and establishing “some kind of equivalence.”

Rather than historical clarity, such efforts have a more nefarious purpose in mind. We must guard against Kremlin attempts to manipulate such sensitive historical issues for political purposes.

Pugliese is right: Many people in Eastern European countries did collaborate with the Nazis in the perpetration of egregious crimes. But showing how the Kremlin co-opts and twists this history cannot and should not be equated with “whitewashing” Nazism. ❁

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*Marcus Kolga is a human-rights activist and expert on Russian disinformation. He is a senior fellow at MLI.*

*Josh Gold, a member of both the Jewish and Estonian communities in Canada, has worked at the NATO Cooperative Cyber Defence Centre of Excellence. This article first appeared in the Ottawa Citizen.*

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## **Pipelines are best (Quesnel)**

*Continued from page 4*

government agency responsible for federally-regulated oil and gas pipelines as well as railways – shows that pipelines are safer.

The TSB’s annual report to Parliament for 2017-2018 also recognized the challenge of transporting more crude oil by rail when it stated: “The volume of flammable liquids transported by rail across North America is expected to remain significant, creating an elevated risk that must be mitigated effectively.”

So, as long as pipeline capacity remains stalled, more oil and gas will be transported via rail, thereby increasing this elevated risk.

In terms of confidential reports filed by transportation employees and the Canadian public over safety concerns, the TSB received 44 rail-related reports, but none for pipelines in 2017-18.

Data by the Fraser Institute from 2015 also revealed the majority of pipeline oil

spills are very small and most occur in facilities, not in the main pipelines, so there are containment mechanisms to minimize damage.

The data for provincially-regulated pipelines and railways reveal similar trends.

This is interesting given that environmentalists spend so much time, resources and money on campaigns to stop pipelines, but the effect might actually make the environment less safe. It is also estimated that transporting oil by rail produces up to 77 percent more greenhouse gas emissions than transporting oil by pipeline.

Energy reporter James Conca in Forbes.com argued persuasively that the calls to shut pipelines and to implement moratoriums on new pipeline construction is precisely the opposite of what we need right now. He wrote, “We really should be replacing old pipelines and building new ones, reducing the stress on each line. Particularly good is to supersize them – build bigger pipelines over old ones.”

The correct government policy response to this issue is to reduce legal and regulatory uncertainty surrounding pipeline projects and for the federal government to assert its authority over interprovincial pipelines. The duty to consult Indigenous communities affected by these projects needs to be clarified and streamlined. Outside environmental groups should be prevented from needlessly prolonging the assessment process. For example, legislators studying Bill C-69 need to get the impact assessment process right by providing certainty and clarity to investors.

Of course, the public does not need to needlessly fear transporting oil by rail and government and industry will continually improve rail safety, but by far the public should know that pipelines are the best way to go. ❁

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*Joseph Quesnel is a program manager at MLI’s Aboriginal Canada and the Natural Resource Economy project. This article first appeared in the Hill Times.*

## **Past stimulus (Cross)**

*Continued from page 10*

Canada provides a good example of how stimulative measures can be exhausted in one cyclical downturn and not replenished before the next arrives. In response to the oil price crash, the Bank of Canada in early 2015 surprised markets by lowering interest rates, accelerating the loonie's devaluation. Lower interest rates sparked the surge in Vancouver house prices and accelerated Toronto's. Today Canada's housing sector is constrained by regulations introduced to curb these housing price bubbles, meaning housing will not provide the offset to weakness in the oilpatch that it did in 2015.

The trade-off between the short-term benefits of stimulus and their long-term costs can take decades to become apparent. Throughout the 1990s, Canada's low exchange rate encouraged the expansion of manufacturing, notably in the lowest-paying sectors, such as clothing, textiles and furniture. For a few years this paid off and the share of manufacturing in GDP rose during the 1990s. However, after the loonie began appreciating and China joined the WTO, manufacturing underwent a painful restructuring, with the lowest-paying sectors virtually disappearing.

Canada's pension system reflects the long-term distortions of easy money policies. Sustained low interest rates have been the primary reason defined benefit pension plans have disappeared in the private sector. Obviously, this puts the long-term retirement plans of private sector workers at risk. Less visibly, public sector pension plans responded by shifting risk to governments and ultimately the taxpayer. This increases the possible exposure of governments to higher deficits in the future.

There is a risk beyond the simple failure of stimulative policies to boost growth. Growing public frustration with

chronically slow growth lies behind many of the specific threats to orthodox economic policies, notably rising protectionism and opposition to globalization. It is not surprising that people elect leaders with policies hostile to global trade or vote for Brexit when the track record of slow growth clashes with the promise of the extraordinary stimulus. For many people the false promise of globalization or the perceived injustice of policies such as quantitative easing (which boosted asset prices benefiting the rich the most) reinforces the public perception that the system is "rigged." ❁

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Philip Cross is a Munk senior fellow at MLI.

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## **Different recession (Nazareth)**

*Continued from page 11*

be a real possibility in the near future.

So how will it play out for workers? We have seen hints of it before. Sometimes it has happened in a fairly subtle way. When recessions of the 1980s and 1990s hit, administrative jobs may not have been lost in huge numbers, but there was not much hiring in those categories either. Instead, companies continued to invest in areas such as word processing and voice mail that over time replaced some job categories. A similar shift happened in manufacturing, where machines and robotics have replaced jobs over the past decades. Sometimes the shifts are more overt, however. When the most recent oil downturn hit Western Canada a few years ago, energy companies made big investments technology in order to get the job done with fewer people, permanently changing the need for workers.

This time around, the shift may not just be to technology. Technology now allows companies to slice and dice job tasks, perhaps just hiring someone to do a series of assignments, rather than bringing them on full time. For the most part though, larger companies find it

easier to deal with permanent employees rather than co-ordinating a series of gig workers.

But economic challenges could change the math on that pretty quickly.

If a recession causes workers to be replaced by robots, of course the unemployment rate will spike up and we will get calls for new economic policies. If, however, a recession results in work getting done in new ways, we may never see the unemployment rate change at all – even though the realities for workers will be very different. ❁

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Linda Nazareth is a senior fellow at MLI. This article first appeared in the *Globe and Mail*.

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## **Bill C-69 (Quesnel)**

*Continued from page 17*

partners earlier in the project-planning phase, but there is potential for mischief in the process. For starters, the bill adds new criteria beyond traditional local environmental indicators, including new considerations of climate change, gender, and health impacts. These areas are harder to define and measure, so there is potential for frustration and even litigation. Also, mentioning the *United Nations Declaration on the Rights of Indigenous Peoples* (UNDRIP) in the bill's main preamble may please Indigenous academics and environmental activists, but it adds uncertainty to the process because UNDRIP includes controversial provisions that imply Indigenous communities have a veto over resource projects. This is important because preambles in legislation are used in courts and in interpreting statutes.

Also, changes to the "standing test" for public participation in the assessment process are concerning resource companies and Indigenous partners as well. During the hearings on the bill, Alberta Senator Patti LaBoucane-Benson of the Indepen-

dent Senators Group (ISG) – an Alberta Métis herself – said it best: “However, by removing the standing test for participation, I wonder if the Indigenous voices for projects and against projects might be drowned out by the lack of a standing test so that anybody can participate. I wonder if the ability for resources and money to be put into the environmental side might drown out the Indigenous nations that are for projects, and oil and gas money might drown out the voices of the people who might be opposed to projects.”

Many industry observers have been spotlighting the growing evidence that foreign-funded environmental foundations are seeking to undermine our economic interests and keep oil and gas in the ground. First Nations and Métis communities are rightfully concerned that this more open standing test in Bill C-69 would allow foreign-funded environmentalists to hold up and prolong assessment hearings.

Indigenous communities are tired of managing poverty and they want prosperity like any other Canadian community. Bill C-69 risks frustrating this by creating more hurdles to projects that directly help these communities. For the sake of these parties, Bill C-69 needs to be fixed. ✿

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Joseph Quesnel is a program manager at MLI's *Aboriginal Canada and the Natural Resource Economy* project.

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### **Foreign interference (Kolga)**

*Continued from page 20*

resistant to the threat of foreign disinformation. It's an uphill battle, but we need to start somewhere.

The government's proposed national task force, made up of Canada's major law-enforcement and intelligence agencies, should also provide the effective monitoring and analysis that is required for an effective counter-disinformation

campaign. The task force will alert other senior officials, as well as a “critical election incident protocol group,” which is tasked with deciding when to inform the public of attempts to directly interfere with our elections.

But an “early warning” system that speaks to the broader public is needed, too. Canada should consider following the European Union model, where alerts and weekly digests of disinformation campaigns are published on an official website called “EU vs Disinfo” to “forecast, address and respond to pro-Kremlin disinformation.” By working with our allies in NATO and the G7, as well as civil-society groups and activists in Canada, such pre-emptive systems can be developed to alert Canadians to current disinformation and other forms of cyberattacks.

Raising awareness  
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priority.

Raising awareness of NGOs that represent foreign interests, as well as their domestic supporters, must also be a core government priority, so that Canadian media, policy-makers and the public can make informed choices on important issues.

Finally, the government response includes advising federal political parties about security protocols and disinformation, but this will require significant involvement in order to build trust and eliminate any doubt about partisan intent. And if they

fail to do so, the stakes are high: Foreign and domestic disinformation actors can seize on these uncertainties in their efforts to break down trust in our system.

The granting of high-level security clearances for representatives from each federal party is a good first step too, but it is vitally important that federal party representatives also meet with each other on a scheduled basis, like in the German system, in order to maintain ongoing understanding and to reinforce overall trust, both during and beyond the writ period.

The government's strategies are a welcome start. But their success and our democracy depend on effective coordination and a transparently non-partisan implementation strategy – as well as additional measures to keep Canadians alert to all attempts to interfere with our democratic processes. ✿

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Marcus Kolga is a human-rights activist and an expert in Russian disinformation. He is a senior fellow at MLI. This article first appeared in the *Globe and Mail*.

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### **Standing up to China (Burton)**

*Continued from page 29*

Ottawa missed a huge opportunity when it learned that China was blatantly violating the *Vienna Convention on Diplomatic Relations* by pressing Michael Kovrig, under severe duress. Mr. Kovrig would have been party to confidential files as part of the Five Eyes intelligence consortium when he had served as a Canadian diplomat. We should have immediately expelled some of the large cohort of Chinese security agents operating semi-openly in Canada.

But again, by our own design, CSIS is weak and misinformed on China. The best we could do was a pathetic exhortation to “please cease and desist.” This only inspired Beijing to play harder at saving face over their failure to repatriate Ms. Meng safely away from tough US questions about

Huawei's relationship with China's intelligence apparatus.

Canadian law-enforcement agencies have established that the fentanyl that is killing Canadians is almost entirely from southern China factories, sent here via shipping containers or in the mail. Surely we must have the spine to initiate slow, thorough inspections of all Chinese mail and shipments into Canada, until Beijing takes serious, verifiable measures to address this scourge on our national well-being.

We also need to stop laundering, through Canadian casinos and urban real estate, the corrupt earnings by persons associated with senior levels of China's Communist Party. We have laws that address this sort of thing, we need to enforce them.

And we can no longer stand idly by as China detains a million or more Uyghurs in its cultural genocide "re-education" internment camps. We have a Magnitsky law list of gross violators of human rights

who are unwelcome in Canada. Why are there no Chinese names on it?

Canada's years of appeasing China's Communist regime, in the hope of obtaining economic favour, has led us to this horrendous mess. We must regain Canadian self-respect in our relations with China, by honest reassessment and a reboot to get it right. ❄

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*Charles Burton is an associate professor of political science at Brock University and a former counsellor at the Canadian embassy in Beijing. He is also a senior fellow at MLI. This article first appeared in the Globe and Mail.*

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### **Iranian interference (Shahrooz)**

*Continued from page 30*

in the diaspora may be best placed to give useful leads to the authorities.

Finally, Canada's cybersecurity experts should focus on identifying and combating

foreign troll and bot accounts, including those linked to Iran. Particular attention ought to be paid to accounts that seek to affect Canadian decision-makers and media or operate solely to sow discord. Collaborating with companies like Twitter would allow our government to leverage existing expertise.

Canada's democracy is under threat from a variety of rogue state-sponsored actors, including from Iran. They operate both in the largely-unregulated world of social media as well as through front organizations and "charities." Their goal is to create conflict in Canadian public life, gather intelligence, and intimidate opponents.

For years, these activities were hidden from view. But now that they have been revealed, it is time for our authorities to act. ❄

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*Kaveh Shahrooz, a lawyer and a human rights activist, is a senior fellow at MLI.*

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