THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

INSIDE POLICY

JUNE 2018

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INSIDE POLICY

THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

Published by the Macdonald-Laurier Institute

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Cover photo: transmountain.com

Production designer: Renée Depocas

For advertising information, please email: david.watson@macdonaldlaurier.ca

Subscriptions: $39.95 per year; single issue $6.95 | ISSN 1929-9095 (print) 1929-9109 (online)

Inside Policy 323 Chapel Street, Suite 300, Ottawa, ON, Canada, K1N 7Z2 | Ph 613-482-8327

From the editors

MLI has been at the forefront of the debate on how to best approach the Trans Mountain pipeline, and we are pleased to showcase a selection of our work on this topic in this issue of *Inside Policy*.

Managing Director **Brian Lee Crowley** looks at why the government nationalized Trans Mountain, which according to Munk Senior Fellow **Sean Speer** is another example of economic enfeeblement. **Carin Holroyd** and Munk Senior Fellow **Ken Coates** explore what this decision can teach us about the challenges facing investment in Canada.

Yet, as **Coates** and **Stephen Buffalo** write, Canada's natural resource economy could also benefit from a full Indigenous partnership – a realization that countries like Taiwan are beginning to understand, according to **Coates** and **Holroyd**. An important step was recently established with the Ontario government's revenue-sharing plan with First Nations, as noted by **Coates** and **Stephen Crozier**.

Canada's economy could use such an injection of entrepreneurship. Munk Senior Fellow **Philip Cross** outlines the high economic costs associated with the government's carbon tax plan, while Senior Fellow **Linda Nazareth** takes issue with the government's plans for gender-equal pay. **Speer** also joins **Robert Asselin** to offer a guide for fixing Canada's economic competitiveness.

Crowley and **Speer** also argue that we could benefit from a charter on economic rights to rectify the shortcomings arising from our interprovincial trade barriers. And **Speer** recommends ways to fix Canada's pharmacare system.

Most importantly, the federal government must also deal with NAFTA negotiations and a Canada-US trade war on the horizon. Munk Senior Fellow **Laura Dawson** makes clear that no one will win in a trade war – a point reiterated by former Republican Congressman **Charles Boustany**. **Cross** looks at the buoyant business climate in the US compared to the weak investment in Canada. Meanwhile, **Larry Martin** provides some recommendations on how to best increase market access in trade negotiations like NAFTA.

Even as Canada tries to deal with an unpredictable US president and fraught trade negotiations, it also must confront other challenges. **Scott Newark** offers lessons from the van attack in Toronto, while **Crowley** warns of being too close to China-owned Huawei. Canada must also be ready to confront cyber and disinformation threats from Putin's Russia, as noted by Senior Fellow **Marcus Kolga**.

The G7 offers an important forum to deal with key global challenges. As argued by **Crowley**, the G7 could find common cause in confronting Chinese assertiveness in the South China Sea. A provocative idea is also offered by Munk Senior Fellow **Shuvaloy Majumdar** – to transform the G7 into the G8, with India as a member. Both suggestions would better prepare G7 members to deal with the Indo-Pacific century.

Contents

Ontario, First Nations take giant step toward reconciliation

Revenue sharing deal between Ontario and First Nations helps reinforce Indigenous self-determination.

Ken Coates

Stephen Crozier

Every once in a while, the ground shifts in the Canadian public-policy landscape. So it was in May 2018, when the Ontario government announced an agreement to share mining and forestry revenue with First Nations. The specific deal was worked out with the Grand Council of Treaty #3, the Wabun Tribal Council and the Mushkegowuk Council. This transformative development, many years in the making, changes the very foundations of resource development in Ontario and holds the potential to set Indigenous, government and industry relations on a new path.

The situation in Ontario is well known. Many promising resource developments, highlighted by the Ring of Fire in Northern Ontario, have been stalled or slowed by Indigenous opposition. The often-stated position is that there was little reason to pursue developments when the returns to Indigenous communities were small and uncertain. Resource companies have supported resource revenue sharing, provided it represented a sharing of current taxes. The provincial government, for their part, worried about how they would fund other development costs, like major infrastructure, if their resource revenues eroded. An impasse had settled over the resource sector, leading to many delays, conflicts and legal struggles, all of which slowed investment and limited opportunities for Indigenous participation.

In the run-up to the provincial election, then Premier Kathleen Wynne's announcement did not get the attention it deserved, partly because Progressive Conservative leader Doug Ford's earlier support for revenue sharing with Indigenous peoples lifted the issue out of the realm of partisan politics. This is a good thing. Finding appropriate mechanisms for involving Indigenous communities in resource development is crucial to the general vitality of Ontario's resource sector as well as the economic and social well-being of Indigenous peoples.

> *The benefits for Indigenous communities could be substantial.*

The details of the agreements are straightforward. The province will allocate 45 percent of forestry stumpage fees (the price a company must pay to the landowner to harvest timber from an area) and 40 percent of mining tax and royalty payments associated with active mines to the affected First Nations. Government revenue from future mines will be subject to a 45-percent allocation to the First Nations. The funds will come to the First Nations with no strings attached; they can use the money to address local needs, which remain substantial in most communities.

Government resource revenue sharing is no panacea. The sums involved will not be high enough to immediately address urgent requirements, let alone produce windfall profits for First Nations governments. It is also not the only way that First Nations could share in the opportunities associated with resource development. Agreements with companies, typically involving training, jobs, business opportunities and community benefits, will remain an integral part of modern mining development in Canada. Revenue sharing, therefore, is a crucial piece of a larger puzzle of contemporary resource activity in Canada.

Indeed, perhaps the most important and difficult work lies ahead. The agreements have to be implemented successfully. Additional agreements will be needed, as currently only 32 First Nations have signed on. Notably, the current agreements do not extend to the Ring of Fire. Revenue sharing also does not remove the obligation of resource firms to work carefully, constructively and openly with Indigenous communities.

Collectively, the benefits for Indigenous communities could be substantial and are certainly well-deserved. For their part, communities need to remain vigilant to hold government to its commitment not to claw back the additional revenue from other Crown payments and contributions to First Nations. Companies will be keen to ensure that Ontario does not seek to offset the cost of the shared revenue through increased fees and taxes, which could easily make further development non-economic.

Resource revenue sharing supports

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transmountain.com

Why Trudeau spent $3.5 billion to nationalize Trans Mountain

The government has pursued a policy of appeasement to pipeline opponents and environmental activists.

Brian Lee Crowley

According to the *Canadian Encyclopedia*, the network of oil and gas pipelines in Canada is 840,000 kilometres long. And virtually every kilometre of pipe was laid by private capital over many decades.

Yet today, it appears the only way a major pipeline project in Canada can get built is if the federal government buys the project, as it did this week when it spent $4.5 billion Canadian (US $3.5 billion) to buy the Trans Mountain project, which aims to triple the capacity of former owner Kinder Morgan's existing pipeline bringing oil from Alberta to the Port of Vancouver. Even then, the outcome is uncertain.

How did it come to this? The answer is that this was the entirely foreseeable outcome of a policy of appeasement toward pipeline opponents and environmental activists pursued by the governing Liberals. Winston Churchill once famously described an appeaser as one who feeds a crocodile, hoping it will eat him last. Having devoured all, the crocodile is now ravenously eyeing Prime Minister Justin Trudeau as the prime minister nervously tries to shoo the beast away with billions of dollars of taxpayer cash.

The roots of this story reach back to the years just prior to the 2015 federal election. The previous Conservative government had tried to position Canada as a "world energy superpower," as Alberta oil sands production rose precipitously and existing pipeline capacity neared its limits.

Four major pipeline proposals were all forging ahead. Two went to the west

Prime Minister Justin Trudeau, MP Randy Boissonnault and Minister Amarjeet Sohi visit the Kinder Morgan Edmonton Terminal, June 5, 2018

Adam Scotti (PMO)/ pm.gc.ca

coast (Trans Mountain and Northern Gateway), one to the Atlantic (Energy East), and the fourth (Keystone XL) to the US Gulf Coast. Every one of them sought the Canadian energy holy grail: access to tidewater. Without such access, the existing pipeline network only reaches US domestic markets. Due to fracking, US markets are already awash in oil, such that the Western Canadian Select oil blend fetches a discounted price. But if it can sail, then Canadian oil fetches the world price in Europe and Asia, currently roughly $20 a barrel higher than what American refiners will pay.

In the Conservatives' love affair with Canadian energy exports, the Liberals saw a potential political advantage. If the Tories could be portrayed as callous money-grubbers, indifferent to the environmental cost of energy development, the Liberals stood to benefit, since Canadians believe strongly in high environmental standards.

Standing in their way was the regulatory and legal framework developed over many years by successive governments. Canada in fact already had some of the toughest environmental and constructions standards in the world. The workings of the National Energy Board (NEB) were widely admired, and people came from all over the world to study how Canada managed oil and gas so successfully.

The Liberals' political strategy therefore required them to throw in their lot with the hardline environmental movement. While claiming to favor responsible pipelines, they made it clear that they would not ride roughshod over pipeline opponents, but would toughen standards even further and win over opponents by demonstrating their commitment to environmentally-sound economic growth. To do that, they had to make clear that the existing standards were not just inadequate, but dangerously so, bad enough to justify political and civil disobedience.

> *It was weakness that drove him to purchase the pipeline at taxpayer expense.*

As Trudeau said when his party was still in the parliamentary minority, governments may issue permits, but only local communities can give permission for projects that affect them. The stage was set for legitimizing direct challenges to democracy and the rule of law in the name of a higher environmental ethic.

The Liberals duly won the election and, thinking they had a deal with the environmentalists, set out making good on their end of the bargain. They are toughening regulatory requirements, replacing the NEB, introducing a carbon tax, banning oil tankers on the northern west coast and, in concert with the government of Alberta, introducing tough measures to limit the growth of the oil sands, including a greenhouse gas emissions cap.

This moving of the goalposts mid-game caused the collapse of two of the four pipeline proposals (Energy East and Northern Gateway), despite billions of dollars spent in good faith by the proponents to meet the rules as they existed at the time. Only one project remains that can break Canada's dependence on the US market and add billions to Canada's GDP: Trans Mountain. Trudeau says he's all-in despite the opposition of the government of British Columbia.

But whereas Trudeau was proposing a rational trade-off (tougher standards for pipeline approval), his erstwhile allies were simply opposed to pipelines, full stop. In an effort to win them over, he whittled his options down to one. It was weakness that drove him to purchase the pipeline at taxpayer expense.

Having helped legitimize opposition to all pipelines, Trudeau now finds he is the one being demonized by his former friends for agreeing to one. Tzeporah Berman, one of leaders of the pipeline opposition, recently wrote, "After a decade of the [Conservative] Harper government I thought [Trudeau] was a dream come true. Now it's a nightmare."

Expect a campaign of civil disobedience involving politicians, international celebrities, Aboriginal groups, and environmental activists, with the tacit backing of the far-left British Columbia government, to reach a crescendo over the next year, as they test what they believe is the weak resolve of Ottawa to haul hundreds of people off in paddy wagons.

Expect to see a few hungry crocodiles on the picket line.

Brian Lee Crowley *is the Managing Director of MLI.*

This article first appeared in the Washington Examiner.

The pipeline purchase is a sign of economic enfeeblement

The Trans Mountain episode should cause us to restore common sense to government decision-making and project reviews.

Sean Speer

The Trudeau government's decision to spend $4.5 billion to acquire the Kinder Morgan pipeline must be a wake-up call for Canadians.

It's a sign that we've gone too far. Consultations and regulatory processes have become disconnected from their initial purposes of informed decision-making. Project approvals and permitting are regularly subjected to lengthy delays and costly uncertainty that have nothing to do with the environment, science, or our economic interests.

We've enfeebled our economy as a result. The case of the Trans Mountain pipeline should bring this into stark clarity.

A private company wanted to invest $7.5 billion – more than half the federal government's annual infrastructure budget – in our country's energy infrastructure. It represented a substantial investment involving 15,000 construction jobs alone.

The company, by all accounts, followed the rules. It submitted a project application at the end of 2013. The National Energy Board recommended its approval in May 2016. The government accepted the recommendation – including 157 conditions – in November 2016. Kinder Morgan spent $1 billion going through the painstaking consultation and regulatory process.

And yet, in spite of all this, the company ultimately decided the project wasn't viable due to ongoing policy and legal uncertainty. No other firm would touch it. Ottawa had no choice but to buy it.

How did we get to a point where a private company that abided by the process and sought to invest billions of dollars in our country was precluded from doing so? How did we get to a point where public capital needed to replace private capital to finance a profitable project?

This isn't a nascent industry. It isn't a case of market failure. We already have 840,000 kilometres of pipeline operating in Canada. Most has been financed and constructed by private capital.

This is a case of government failure. In fact, it's a failure by all of us. We've permitted a build up of government rules and processes that amounts to what conservative columnist George Will calls "economic enfeeblement."

The Trudeau government certainly contributed to the problem. Opportunistic critiques of the major project review process diminished public confidence. Vague commitments about the *United Nations Declaration on the Rights of Indigenous People* raised the spectre of a First Nations "veto." New regulatory burdens exacerbated the already slow and cumbersome process. Notions of "social licence" were predictably used as a foil by ideological activists to stall progress.

This is all true. But the problem is bigger than one government, one pipeline, or one sector. It now permeates every level of government and crosses the economy.

One example: Condo and real estate developers in Toronto typically face nearly a year-and-a-half for approvals and spend an average of $46,570 per unit on compliance costs. The result is less housing supply and in turn higher prices at a time when people are rightly concerned about housing affordability.

> *How did we get to a point where public capital needed to replace private capital to finance a profitable project?*

Another example: federal, provincial, and local governments pledged funding for the Spadina subway extension in 2006 and yet the service only commenced more than 10 years later in December 2017 following various delays and cost overruns. No wonder it represented the first new subway stops in decades.

The list could go on and on. The Trans Mountain episode is merely the most recent and highest profile example.

It should cause us to restore common sense to government decision-making and project reviews. It's time to end the enfeeblement. We need to start building things again.

Sean Speer *is a Munk Senior Fellow at MLI. This article previously appeared in the* Toronto Sun.

What the Kinder Morgan decision says about investing in Canada

The federal government's purchase of Trans Mountain carries potentially serious long-term financial consequences for the country.

Carin Holroyd

Ken Coates

Would you invest a billion or two in Canada right now?

By buying the Trans Mountain pipeline, the government of Canada has made a stunning admission. They cannot assure a major company, one with a long and successful track record in Canada, that a legal, comprehensively reviewed and fully authorized major project will proceed to completion.

Let's park the conversation about the relative merits of the pipeline itself and think about the message that this decision sends to the investment community, particularly relating to natural resource development.

Canada has, for generations, been a major beneficiary of foreign and domestic investment in resource projects and related infrastructure. That investment flow is now at risk.

The protests against Kinder Morgan are fully understandable. In a properly functioning democracy, people debate with passion and conviction the major issues of the day, including energy policy and pipeline construction.

The opponents have many different and honourable motivations, from concerns about the pipeline itself and Indigenous rights to worries about protecting the coastal waters from a potential tanker disaster.

Others see the struggle with Kinder Morgan as an existential battle against climate change and, specifically, the exploitation of the oil sands.

These are perfectly legitimate concerns and, to date, the overwhelming majority of the protests and tactics used by opponents of the project have been well within acceptable bounds.

Canada's Standing Rock?

But with continued push-back from the government of British Columbia and provincial municipalities, particularly Burnaby and Vancouver, and with promises from other opponents to turn the construction project into Canada's Standing Rock (a lengthy confrontation over the construction of the Dakota Access pipeline in the US), Kinder Morgan had had enough.

Without government assurances that the pipeline project could proceed in full accordance with the law and duly secured permits and approvals, the company was going to shut construction down.

Ignore, if you can, all of the related concerns about the employment of construction workers, financial commitments to First Nations along the route, increased or decreased federal and provincial government revenues, and the national and international debates about climate change and oil sands development.

Focus instead on what this says about Canada's investment environment.

By buying the pipeline, the government of Canada has essentially agreed with Kinder Morgan – a private company could not build a fully authorized project in a timely and commercially effective manner.

And so the federal government is going to build it, assume the risks with taxpayer money and somehow deal with the continuing protests, including the potential for violence and for citizen arrests.

This is a staggering admission and one with potentially serious long-term financial consequences for the country.

Canada and British Columbia have been down this path before. In the mid-1990s, the province's NDP government slammed the brakes on the Kemano Completion Project, a major hydro-dam expansion in northern central BC. Alcan, the project's proponent, had spent $500 million by the time the government cancelled construction.

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How Indigenous peoples can save the resource economy in Canada

With full Indigenous partnership, the country can have a robust, successful natural resource economy.

Stephen Buffalo

Ken Coates

In one of the most unexpected developments in recent years, numerous First Nations have recently come out in favour of both the construction of the Kinder Morgan Trans Mountain Pipeline and, more surprisingly to most Canadians, have indicated a desire to buy all or part of the now-nationalized project. For people in the field, this is not surprising. Instead, it is the logical extension of a steady expansion in the role of Indigenous peoples in the oil and gas industry in Canada.

For generations, resource development occurred on the backs of Indigenous peoples. Outside developers moved into Indigenous territories and produced a great deal of wealth from mines, oil and gas fields, forests and hydro projects. Indigenous communities, if they gained any benefits at all, got scraps off the table. But they absorbed repeated body-blows, such as despoiled lands, the destruction of harvesting activities, and the impoverishment of entire societies. The small financial returns from paternalistic governments were sparse compensation for profound losses.

This is all changing fast. Only 50 years ago, Canadians refused to recognize Indigenous rights. But at great cost to their communities, Indigenous peoples fought back, spending decades using the courts to get governments in Canada to recognize the contemporary authority of Aboriginal and treaty rights. It has been a hard slog, marked by literally hundreds of legal victories offsetting a small number of losses in court.

> *Indigenous peoples are not puppets in the control of resource firms.*

Canadians know very little about Indigenous successes in recent years. Few urban people have much contact with Indigenous communities. But the growth has been dramatic. There have been thousands of Indigenous businesses created. Their communities have signed hundreds upon hundreds of agreements with resource and infrastructure firms. Thousands of Indigenous workers, many with college diplomas or university degrees, are working in the sector across the country. Indigenous economic development corporations have invested hundreds of millions of dollars in everything from oil sands tanker farms to airlines, hotels, resource-bearing properties, and other business assets.

Resource companies understand, much more than the Canadian population at large, that Indigenous peoples are now central to the future of the resource economy. The legal "duty to consult and accommodate" is now integral to the sector. All major resource companies have sizeable outreach operations responsible for working with Indigenous peoples.

But the rest of the Canadian economy has made little effort to reach out to Indigenous peoples. Save for the double-edged sword of dependency on government transfer payments, Indigenous peoples in most of Canada understand that there are precious few economic opportunities for them outside the natural resource sector.

Indigenous peoples are not impediments to the growth of the resource economy; they are a key part of the future of Canadian extraction, processing and transportation of natural resources. Indigenous communities seek economic opportunity, including a fair share of Canadian prosperity and a release from the weight of history and the grinding poverty and hopelessness that accounts for most of their social and cultural problems.

Many Canadians refuse to see the complexity of the current resource economy. Take the Kinder Morgan Trans Mountain Pipeline controversy. The First Nations on the West Coast have for strong local reasons fought against the pipeline or, more accurately, against coastal shipping and the incremental use of fossil fuels. But consider the work of the 130 oil and gas producing First Nations that are members of the Indian Resource Council, or the dozens of Indigenous communities that have made partnership agreements with Kinder Morgan and, earlier, Enbridge's Northern Gateway pipeline.

Consider, too, the commitment of the Inuit of Nunavut to engage in the natural resource economy and infrastructure development. And the work of Indigenous groups in the infrastructure and support industries. To many Canadians, finding communities that have been outspoken critics of the oil and gas sector coming to the defence of the industry is something of a shock. For close observers of Indigenous participation in the resource sector, however, the recent suggestions by some Indigenous communities that they are open to purchasing part ownership in the Trans Mountain Pipeline is a logical extension of their engagement. That several of the First Nations that have stepped forward have been vocal critics of the oil sands demonstrates that these positions are based on thoughtful and careful analyses of the best interests of their communities.

Make no mistake. Indigenous peoples are not puppets in the control of resource firms. They bargain hard to create opportunities for their communities. They do not follow standard business conventions and investment patterns; they look for long-term returns, local economic development and business spin-off opportunities. In the future, many major infrastructure projects will not just be built through Indigenous territories but will be owned, all or in part, by Indigenous communities or consortia. Indigenous communities will be actively involved in everything from exploration and development to environmental oversight, response and remediation.

Indigenous peoples will not abandon their concern about the environment. They are deeply connected to their traditional territories and want to protect their lands for future generations. Projects will only proceed after robust and difficult internal debates. But Indigenous peoples understand the need for a balance, looking for the right economic opportunities that will give them the resources to support autonomy and independence.

Indigenous peoples are back economically. They know their economic future is tied to the success and sustainability of the Canadian natural resource sector. Without a full and enthusiastic embrace of Indigenous communities – without ensuring that Indigenous peoples have a proper share in the returns and an appropriate measure of influence over the sector – the resource sector will continue on its current uncertain course. With full Indigenous partnership for the first time in Canadian history, the country can have a robust, successful natural resource economy.

Stephen Buffalo *is CEO of the Indian Resource Council.* **Ken Coates** *is a Munk Senior Fellow at MLI and a Canada Research Chair at the Johnson-Shoyama Graduate School of Public Policy at the University of Saskatchewan.* *This article was first published in the* Hill Times.

Carbon taxes do not curb emissions or help battle climate change

Carbon taxes have degenerated into a tax grab to increase government spending and expand government.

Philip Cross

When first proposed, a carbon tax had the potential to be an effective way of achieving the long-term goal of reducing greenhouse gas emissions.

However, its introduction and the ongoing campaign conducted by advocates have become so politicized and corrupted by ideology that it is no longer politically tenable, while rising oil prices reduce its economic necessity.

To achieve the goal of curtailing fossil fuel use enough to meet the Paris Climate Agreement, our current technology requires carbon taxes so high that they are a political non-starter. Proponents of a carbon tax seem to increasingly agree with this.

Instead of a major overhaul to the efficiency of the tax system, supporters now meekly argue that a carbon tax is just one of a wide range of solutions (the federal environment minister recently was reduced to pledging to plant more trees to make its climate change plan palatable to the public).

Small carbon taxes are not a serious proposal to curb emissions, but the equivalent of buying a papal indulgence to alleviate our collective conscience with a largely symbolic gesture to climate change action.

Waning interest in a carbon tax is not necessarily a bad thing for the environment. Even without a meaningful carbon tax, fuel prices across North America are at, or near, record highs this summer. Proponents never clarified how the tax would interact with changes in oil prices: low prices made a carbon tax seem acceptable, but high oil prices make it feel punitive to the average person already struggling with higher fuel costs.

High prices have not always proved the best way of promoting energy efficiency. Significant progress has been made using other tools.

Mandatory mileage standards for vehicles have resulted in dramatic increases in fuel efficiency, allowing North Americans to drive larger vehicles without guzzling more gas. Electricity generation has been largely de-carbonized in Canada through government fiat, while in the US a shift away from coal was driven by a drop in natural gas prices, not higher taxes.

Most fatally for the carbon tax, it has become politicized. In its early days, people on both the left and right of the political spectrum supported a carbon tax. Conservative leaders such as Patrick Brown and Jim Prentice advocated versions of the tax. Now their heirs in Ontario and Alberta have joined a growing number of conservative parties opposing it, including at the federal level.

Why are conservatives increasingly united in opposing a carbon tax? Partly because their long-standing suspicions that the carbon tax would become another government tax grab were confirmed.

Almost all provincial governments used carbon tax revenues to increase government spending rather than cutting income taxes.

Carbon tax proponents needed to vociferously condemn governments not lowering other taxes as an existential threat to the whole carbon tax agenda. By mutely watching the exercise degenerate into a tax grab, academic advocates implicitly said that what was important to conservatives – that the exercise be part of a more efficient but not expanded tax system – was not important to them. In so doing, carbon tax advocates made it easy to label the whole exercise a Trojan horse to expand government.

Poisoning the bipartisan well of support for a carbon tax reduces its effectiveness. The public increasingly treats such taxes as transitory, to be reduced or removed when conservative governments are elected. So people respond to a carbon tax by making transitory adjustments instead of fundamental investments (such as buying more fuel efficient cars) that permanently alter behaviour and lower emissions.

Left wing governments have stoked the cynicism of conservatives with an alarming willingness to ignore facts and simply indulge vindictive environmental whims. When the Obama administration failed to get a cap-and-trade scheme to control emissions through Congress, it petulantly played to the environmental lobby's obsessive hatred of Canada's oil sands by blocking the Keystone XL pipeline despite evidence it would lower emissions.

A similar process is at work in the opposition to the twinning of the Trans Mountain Pipeline. These moves make it seem that the triumph of a particular ideology, not the effectiveness that could only come from bipartisan support, is what drives the push for lower emissions.

Philip Cross *is a Munk Senior Fellow at MLI. This article first appeared in the* Toronto Star.

Following *Comeau*, lawmakers need to defend Canadians' economic rights

The federal government needs to stand up for Canadians wishing to exercise their rights to work, buy, and sell in any corner of the country.

Brian Lee Crowley

Sean Speer

iStock

It's now been just over two months since the Supreme Court of Canada ruled on the high-profile "free-the-beer" case.

The court's unanimous decision against retired steelworker Gérard Comeau's right to purchase beer in Quebec to bring back to New Brunswick has been the source of great despair for many who hoped for an affirmation of Canadians' economic and commercial rights free from interprovincial trade barriers.

There are plenty of reasons to be disappointed with the judicial outcome. Not only did it involve a tortured interpretation of Section 121 (the open market clause) of the Constitution, it strains credulity that the oft-activist court suddenly was animated by notions of judicial restraint, particularly given the importance of the economic and commercial rights of Canadians that were very much at stake.

But notwithstanding these legitimate grievances with the decision and what it says about the confused and contentious state of legal thinking in this country, it would be a mistake simply to despair.

The Supreme Court's decision is most emphatically not the end of any hope of using the law and the Constitution to protect economic rights and tear down interprovincial trade barriers. It merely means we cannot look to the courts to get the job done. That puts the ball right back in the court of elected officials. The onus is now on Canadian governments – particularly the federal government – to stand up for people like Mr. Comeau who wish to exercise their rights to work, buy, and sell in any corner of the country.

A matter of cost and principle

Interprovincial trade barriers impose considerable economic costs. Statistics Canada has estimated that the totality of interprovincial trade barriers (such as New Brunswick's ban on bringing beer across its provincial line) amount to the equivalent of a 7-percent tariff inside Canada's borders. Think about that for a minute. We essentially have tariff-free trade with the United States and dozens of other countries but allow governments to impose the equivalent of a 7-percent tariff on the purchase of goods and services within our country.

But, as we've written elsewhere, it's not merely about financial considerations. It concerns our basic rights as workers, entrepreneurs, and consumers and even though those rights may not have been included in the *Charter of Rights and Freedoms*, they have nonetheless been recognised by some of our greatest thinkers – like Adam Smith and David Hume – as absolutely central to human freedom. Given how much our identity and our life revolves around our economic choices and possibilities, what trade or profession we can exercise, what education we can acquire, how secure our property is from arbitrary seizure, whom we are permitted to trade the fruits of our labour with and under what conditions, the lack of internal free trade in Canada isn't some

petty dispute between governments, but a serious and pervasive obstacle to the freedom of Canadians.

Moreover, the absence of free trade for all Canadians means we have signally failed to realise the hopes and aspirations the founders of Canada had for this new country in 1867. Piecing together a national economy wasn't a tangential part of the country's founding. It was the central prize sought by many of the leading politicians of the time, an idea expressed repeatedly in the Confederation debates. The idea that Mr. Comeau was sanctioned for buying beer in Quebec and bringing it back to New Brunswick would have dismayed Sir John A. Macdonald – and not just because he loved his tipple. George Brown would similarly have been appalled at the failure of Confederation to tear down the barriers between Canadians, making "a citizen of one [province] a citizen of the whole."

The question, then, is: what can be done to eliminate these barriers and realize the national vision of Macdonald and the other founders?

The Macdonald-Laurier Institute has long championed a legislative solution to these matters. The Supreme Court's ruling only reinforces the need for such an approach. Real reform must come from Ottawa.

Economic charter of rights

We have argued that the federal government has the constitutional power to introduce a sweeping statute — an economic charter of rights — to ensure that no government rules or policies unnecessarily restrict the free movement of goods, services, labour, and capital, and give individual citizens clear legal remedies against such restrictions. Such a law would be entirely in keeping with the Supreme Court's ruling, which did not say that barriers could not be torn down. Instead it said that the courts wouldn't do it, and that provincial barriers whose real purpose was to restrict trade were vulnerable under the Constitution.

The charter would be faithful to the founders' vision and rooted in the principle that a Canadian has the right to seek employment, earn a living, and sell his or her goods and services anywhere in Canada without exception.

> *What can be done to realize the national vision of Macdonald and the other founders?*

It would have real enforceability in the form of an economic freedom commission with the power to investigate breaches of the economic charter of rights on its own initiative as well as in response to complaints. Provinces and territories would need to justify regulations or policies that impede the exercise of these basic rights. Otherwise people and businesses would be entitled to ask the courts for financial compensation for infringements.

The function would thus be somewhat similar to the NAFTA's investor-state dispute mechanism. People would similarly now have real recourse to protect their economic and commercial rights within Canada. And the adjudicator would not, as is the case under the current dispensation, be the same governments responsible for the barriers in question. It's ultimately the only way to keep the provinces' protectionist inclinations in check. Remember that under the new agreement on internal trade that the provinces negotiated and put into effect last July, there are over 100 pages of exemptions, and the ink was barely dry before BC and Alberta were threatening each other with new trade barriers in the dispute over the Trans Mountain pipeline. The premiers are no free traders.

Standing up for the "Little Guy"

The Comeau case ultimately failed but it's influence will be enduring. Why? It gave the issue a human face. It helped Canadians understand the power imbalance between strong special interests and ordinary Canadians that's often inherent in interprovincial trade barriers. Mr. Comeau wasn't some grubby corporatist looking to erode health and safety or environmental protections. He was just a retired steelworker looking to purchase cheaper and better beer.

There are countless others like him. They're not famous and don't have high-priced lobbyists, so we don't know about them. They're hairdressers who can't find work in Ontario because they got their training in Saskatchewan. They're small business owners who can't bid on provincial contracts because they live on the wrong side of provincial lines. They're restaurateurs who can't sell their products from one province to the other. And none of them can do anything about it.

An economic charter of rights is an idea whose time has come – particularly following the Comeau decision. It seeks to unshackle Canada's economy. It seeks to complete Canada's nation-building project. And most importantly: It seeks to help the rights and freedoms of the little guy whose life opportunities and livelihood are damaged by parochial and protectionist restrictions and barriers that have no place in a modern and unified Canada.

There's no more time to despair. Our federal legislators have work to do. It's time to "free-the-beer" once and for all.

Brian Lee Crowley *is Managing Director and* **Sean Speer** *is a Munk Senior Fellow at MLI.*

Budget doesn't make grade in truly helping women to narrow wage gap

The reasons for the pay gap between men and women are not particularly new.

Linda Nazareth

Please, at least let's start by using the right numbers. Of course there is a pay gap between men and women in Canada, but let's not make it worse than it is. When you play with the statistics on male-female earnings, you lose your credibility and then who knows what else some of us are going to question.

Case in point: In the 2018 budget speech, Finance Minister Bill Morneau earnestly says that women make just 69 cents for every dollar earned by men on an annual basis. It is a shocker of a statistic, the same one that sometimes has people asserting that it is as if women start working for free at 2:40 in the afternoon while men keep getting paid all day. Trouble is, it simply is not true.

Comparing the earnings of men and women on an annual basis is a red herring given that women tend to work fewer hours than men. According to a 2017 study by Statistics Canada, when you look at hourly earnings of men and women, you see that women earn 87 cents for every dollar that men earn. That is still a gap and that's not okay, but it is a lot less than the one Mr. Morneau is talking about.

Next, let's look at why that gap exists and whether any of the policies put forth in the federal budget are likely to make a dent in it.

The reasons for the pay gap between men and women are not particularly new. Women tend to be clustered in fields that traditionally pay less than the ones that men choose, and in occupations that pay less as well. They are also a lot more likely than men to take "breaks" from work (a really poor word to express what happens when you are home with small children), which does not help their long-term earnings power either. And there is straight-out pay discrimination, which is some portion of that 13 cents although it is hard to know just how much.

> *Measures directed at women in this budget are pretty scant.*

And so we have a smorgasbord of offerings to women in this budget. Female entrepreneurs will have $1.4-billion earmarked for them through the Business Development Bank, along with another $250-million through Export Development Canada. Given that these sums are relatively small and will be doled out over a series of years, they are not much more than a token, but a welcome one anyway. The same is true for a promise to support women entering the trades, and the $85-million allocated to investigate sexual harassment claims in the work force.

The one child-care measure in the budget is a "use it or lose it" parental leave program that can be used by men or women. That presumably will allow women to return to work earlier if they want while knowing that their partners are home on their own "break," taking care of their children. It is really not meaningful enough to change the hours worked by women very significantly, however.

Despite the hype, the measures directed at women in this budget are pretty scant, and that is actually okay. After all, according to that same Statistics Canada study, that 13-cent gap between men and women has narrowed already from 23 cents in 1977 and 18 cents in 1994. Maybe it is because over that period women have tired of waiting for help from the government and have gotten themselves loads more education and degrees, realizing that that is the best path to earning more. A just-published study from Georgetown University in Washington comes to the grim conclusion that for women to equal men's pay they need one full degree more their male counterparts. Depressing as that is, in both the US and Canada, women seem to be getting on with it and making that happen.

Looking at the budget through economist-eyes shows that the thing that most threatens the economic health of women is the same thing that threatens men: There is red ink as far as the eye can see. With deficits merrily forecast for years to come, the government figures that Canadian public debt payments will grow by 37 percent between the last fiscal year and 2022/23. That is a burden that is going to fall on millennial men and women, and on Generation Z and Generation Alpha as well.

Celebrating women is nice, but really the best way to say some things is with money and on that, this budget does not make the grade.

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

Canada must play the long game to fix its economic competitiveness

A number of high impact yet low-cost steps can be taken to help improve our business investment climate.

Robert Asselin

Sean Speer

Growing concerns about weak business investment in general and foreign investment in particular have recently risen to the top of the policy agenda. Statistics Canada data show that business investment has lagged since prior to the last federal election and shows no real signs of improving. Fortunately, the renewed policy debate has come to rightly focus on Canada's economic competitiveness.

Competitiveness, by definition, is dynamic as different jurisdictions strive to give themselves a policy edge in order to attract investment and enhance productivity. Research in fact shows that competitiveness and in turn business investment are key indicators of a jurisdiction's long-term economic prospects. These issues must therefore transcend partisanship.

There's no silver bullet to fix such a dynamic and multifaceted issue. It requires a continuing process of reform and refinement involving various policy levers – including regulatory reform, competition policy, trade, infrastructure, education and skills, taxation and so on.

Thus far, much of the policy discussion has been focused on corporate taxation as result of tax reform in the United States. There's compelling evidence that a jurisdiction's corporate-tax rate and structure are key determinants of its overall economic competitiveness. This is why Canada has long had a bipartisan consensus in favour of competitive corporate taxation – including the lowering of the federal rate – under both Liberal and Conservative governments.

Canadian policy makers must of course remain mindful of maintaining competitive corporate taxation. There may be scope, for instance, for revisiting depreciation rates or enabling full expensing on a temporary or even permanent basis.

> *It would be a mistake to think about competitiveness solely through a taxation lens.*

But it would be a mistake to think about competitiveness solely through a taxation lens. Competitive taxation is a necessary yet insufficient condition for enabling more business investment. Significant tax-rate reductions without offsetting tax reform or spending reductions would exacerbate the budget deficit. And in a zero-sum fiscal scenario, there's a strong case to focus instead on non-fiscal policy levers.

The good news is that there are a number of high-impact yet low-cost steps that Canadian policy makers can take that will have bipartisan support and improve the country's economic competitiveness.

Near the top of the list must be addressing the panoply of regulatory and policy impediments to build major infrastructure in Canada. Trans Mountain is only the most recent and high-profile example. We now rank 34 of 35 OECD countries for the time to obtain a permit for general construction projects. Changing this will require a shared intergovernmental commitment to reduce overlap, duplication and red tape.

Our pension funds are some of the most sophisticated institutional investors and are heavily invested in infrastructure around the world. Yet we still haven't put in place right policy conditions to leverage private capital to build big infrastructure in our country. The Canada Infrastructure Bank is a welcome initiative, but it remains to be seen how effective the new organization will be in achieving this goal.

Skills acquisition and lifelong learning are crucial in the new knowledge economy. There should be a bolder sense of purpose between the federal and provincial governments and the private sector to collaborate and act on this issue. Streamlining occupational licensing would be a key step in this regard.

On talent acquisition, Canada is doing well in attracting top researchers and entrepreneurs in the burgeoning sectors of clean technology and artificial intelligence.

But a low Canadian dollar still makes it difficult for domestic firms to compete against the United States with regard to relative compensation levels. Better foreign-credential recognition would go a long way in bringing the best and brightest to Canada.

Improving competitiveness also

Continued on page 33

Fill in the gaps to strengthen Pharmacare

Adopting single-payer coverage is not the solution to the challenges facing Canada's pharmacare system.

Sean Speer

The idea of creating and implementing a national pharmacare program has become an increasingly important part of the policy agenda. The announcement of an advisory panel to study the subject in February's budget has since been followed by a parliamentary committee report that favours a single-payer pharmacare scheme and an expression of support by Liberal Party members at their recent policy convention. Meagan Campbell predicts in *Maclean's* that this issue will loom large in the 2019 federal election.

There's good reason for policymakers to focus on improving the financing for and access to pharmaceuticals. There are gaps in the current model of health insurance in general and drug coverage in particular, and room for improvement in the current funding model to reflect changes in medical technology, demographic pressures, and public needs. But it doesn't follow that the solution is to establish a federally run, single-payer system.

This is the crux of the debate over the coming months. The two poles are represented by the MPs on the health committee who endorsed first-dollar, single-payer coverage on one side and Finance Minister Bill Morneau who has said any new initiative should seek to fill "gaps" in the current financing and insurance model on the other. This article sides with Mr. Morneau in this important policy debate.

Canada's health care anachronism

Most of the basic architecture of the health care system – including delivery and financing – remains unchanged since the early days of Medicare. Yet almost everything else, from care protocols to technology, has changed.

One example: while pharmacological innovation has markedly improved health outcomes, it has also changed how health care is delivered, and the mix and composition of health care spending. Drugs became the second largest health care expenditure roughly two decades ago (see chart 1). The annual growth of expenditures for drugs has exceeded hospital and physician spending in recent years.

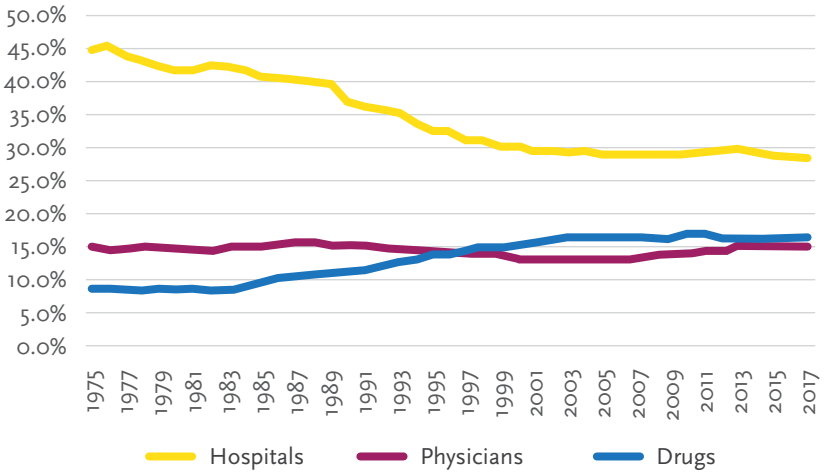
Remember that Canada's public insurance model is, by and large, limited to hospital and physician services. Drugs and many other health related costs are generally only covered when they are incurred in hospital. This is an anachronism that fails to reflect the growing and increasingly critical role of pharmacology in modern medicine. The "biotechnological revolution," as it is sometimes called, post-dates the advent of Medicare.

The current mix between public and private spending on health care (see table 1) has been largely frozen for nearly half a century. It makes Canada an outlier relative to our peers. Public insurance essentially covers 100 percent of all hospital and physician services, but is highly limited in other areas of health care spending including drugs, dental, and outpatient care. MLI has previously described Canada's single-payer model as a "mile deep and an inch wide."

Think about this statement for a minute. Hospital and physician spending represents less than half of Canada's health care expenditures. So essentially we have full public coverage for half of our health care system and little to no public support for the rest. And the non-insured share of the system is growing faster than the insured share.

Other jurisdictions, by contrast, provide less generous public insurance but are able to extend coverage to a wider range of health-related services. Australia is a good example (see table 1).

(Chart 1) Different types of expenditures as a share of total health care spending – 1975 to 2017



Source: cihi.ca/sites/default/files/document/nhex2017-trends-report-en.pdf.

(Table 1) The mix of public and private health insurance in Canada and Australia (%)

COUNTRY	Health-related service	Public	Private
Canada	hospital	92%	8%
	doctor	99%	1%
	drugs and other outpatient costs	35%	65%
COUNTRY	**Health-related service**	**Public**	**Private**
Australia	hospital	68%	32%
	doctor	79%	21%
	drugs and other outpatient costs	45%	55%

Source: macdonaldlaurier.ca/files/pdf/MLICanadasHealthcareCrisisSeries6_f_web.pdf.

The case for rethinking health care financing

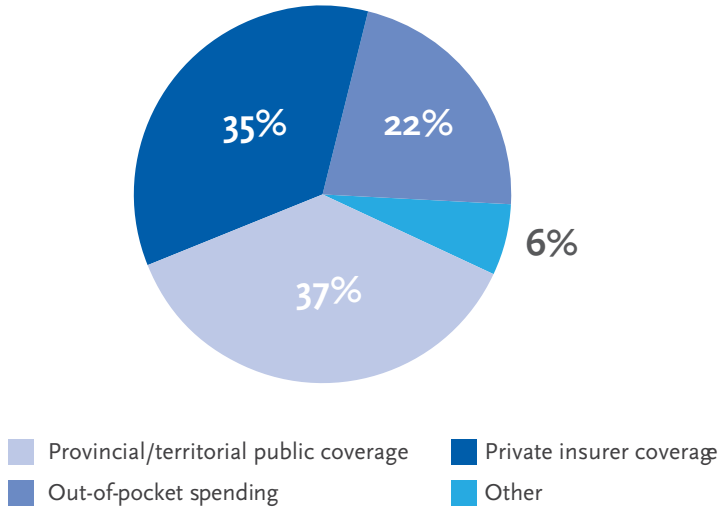
As mentioned, there's a case for rethinking drug financing and insurance coverage in light of the rising role of pharmacology in our health care system, the interaction of new medical innovation with the single-payer system, and the growing unsustainability of the overall model. Examples include:

- New oral-administered drugs enable patients to receive treatment at home rather than in the hospital, but the insurance model (which covers drugs administered in hospital but not at home) can create perverse incentives whereby treatment choices are driven by financing instead of medical considerations.
- Out-of-pocket spending on prescription drugs is climbing. It currently represents more than 20 percent of prescription drug spending in Canada. This amounts to an average of $476 per household. These costs are disproportionately borne by the lowest-income households.
- Efforts to control drug costs have been ramped up – including a new pan-Canadian Pharmaceutical Alliance involving the provinces and territories to enable bulk negotiations and purchasing by the provinces. The focus of the efforts has generally been on better controlling costs for provincial governments.
- Political pressure is mounting for governments to find new and different solutions to help individuals cover the costs of drugs. One of these solutions is the adoption of the national pharmacare model mentioned earlier.
- Public spending on health care has become increasingly unsustainable. It now averages about 40 percent of total provincial spending and MLI research shows that in several provinces it will soon exceed 50 percent.
- The Parliamentary Budget Office has judged that every province except for Quebec and Nova Scotia are presently facing long-term fiscal sustainability challenges – the gap ranges from 0.4 percent of GDP in Ontario to 7.2 percent for the Territories.

The case for reform, then, is strong: some of the systemic perversities caused by the current model and the growing unsustainability of its overall funding model must be addressed.

But the need for reform does not necessarily lead to the conclusion that we ought to move to single-payer coverage for drugs. Not only would it be massively expensive – the Parliamentary Budget Office estimates its cost at more than $20 billion per year – but it threatens to disrupt the parts of the system that people are used to and that they like and want to protect. The lesson from the Obamacare experience in the United States is that health care reform must be deliberate and incremental if it is to survive the political process and secure public buy-in.

(Chart 2) Current mix of drug financing in Canada, 2017



Source: cihi.ca/sites/default/files/document/nhex2017-trends-report-en.pdf.

Put it this way: private insurance currently makes up $12 billion of the $34 billion spent on prescription drugs each year (see chart 2). Canadians who are currently covered by these plans would likely see a decline in their coverage under a mandatory, single-payer plan because the federal formulary would invariably be more limited than what is offered under current private plans. How is that the basis for a successful and durable reform?

It's a losing political and policy strategy to tell 35 percent of the population that they cannot keep their prescription drug plans even if they like them, especially since many of these benefits have been won through collective bargaining. One can envision various court challenges if the government(s) sought to impose a one-size-fits-all public insurance scheme. We cannot and should not merely graft single-payer coverage onto the pre-existing regime.

Filling gaps in Canadian drug coverage

Rejecting the idea of a mandatory, single-payer plan doesn't mean that there's no room for reform. Canadian governments should look to "fill gaps," as Finance Minister Morneau has put it, in order to strengthen the current model.

> *Health care reform must be deliberate and incremental.*

The Ontario government's recent move to OHIP+ is a flawed yet general step in this direction. The province has moved to provide first-dollar coverage for prescription drugs for Ontarians ages 24 and under.

It's the type of incremental, targeted solution that policymakers ought to consider. But, as I have written elsewhere, the focus on age – particularly on an age group that's generally healthier and tends to use fewer prescription drugs – seems like an odd solution. It's especially perverse from an equity standpoint. Why would a wealthy 24-year-old be eligible but a poor 25-year-old not?

Instead, there's room for more holistic reform whereby public insurance is extended to drug coverage based on one's means in exchange for the introduction of means-tested patient cost-sharing (such as co-insurance, co-payments, or deductibles) across the public insurance model. This would expand Medicare coverage on a pay-as-you-go basis, which would have the benefit of improving equity without further eroding fiscal sustainability.

The idea is far from revolutionary. Many other jurisdictions with universal coverage are able to extend public health dollars across a wider range of services – such as prescription drugs – by implementing patient cost sharing. Caps or exemptions for those with chronic conditions would address concerns about undue costs. The plan would ensure that scarce public resources are targeted for those who most need the help. This just makes sense, especially as the provinces grapple with their long-term fiscal sustainability.

Such a balanced reform would likely require the federal government to enact amendments to the *Canada Health Act* to enable greater legal clarity and scope for patient cost-sharing. In doing so, Ottawa would be usefully contributing and would also be enabling provincial experimentation and encouraging incremental improvements.

This reform would be a major step toward broader and more universal coverage as well as sustainability and fairness. Experimenting with patient cost-sharing in prescription drugs would enable the provincial governments to test different models and build public awareness that might allow for a future incremental expansion to the rest of Medicare.

Sean Speer *is a Munk Senior Fellow at MLI.*

Is Canada's defence of supply management giving away the farm?

Ottawa should rethink how it approaches increasing market access in trade negotiations.

Larry Martin

Public commentary regarding the NAFTA negotiations is mainly on the auto industry, as is appropriate. But another of Trump's whipping boys is US market access to Canada's supply-managed dairy and poultry industries. In the fourth round of the NAFTA discussions, the US negotiators tabled a proposal to eliminate Canada's supply management system for dairy, poultry, and eggs, which Canada's Agriculture Minister Lawrence MacAulay responded by calling it a "non-starter."

Yet Trudeau has since indicated a willingness to show "flexibility" on this issue. More uncertain is what this "flexibility" would actually entail. Canada's recent track record in trade negotiations has been to offer increased access to dairy and poultry through a mechanism called Tariff Rate Quotas (TRQs), which denotes a minimum market access for imports before tariffs become applied. Changes in TRQs can affect imports without having an impact on tariff levels. However, questions can be raised about the wisdom of this approach.

Under supply management, dairy and poultry boards manage prices to levels informed by cost-of-production formulas and by allocating production quotas to domestic farmers. Managed prices are frequently above US and world levels. To prevent imports from undermining them, Canada imposes tariffs of between 150-300 percent, which are allowed by the World Trade Organization (WTO). WTO also mandates a minimum market access using the TRQ mechanism. In Canada's case,

TRQs are essentially from 5-8 percent of domestic consumption.

Tariffs work in conjunction with TRQs: once the TRQ for a product is full, i.e., when the amount allowed in duty free is imported, the tariff applies against any further imports. For example, Canada's tariff on butter is just under 300 percent; so assuming the TRQ is 8 percent of domestic consumption, as soon as that quantity is imported, any remaining imports are subject to the 300 percent tariff. Imports are tariff free within the quota, but highly protected thereafter.

The strategic policy issue

In trade negotiations, the importing country can offer market access by reducing tariffs, increasing TRQ, or a combination of the two.

To date, Canada has been willing to increase TRQs for dairy and poultry in trade negotiations. In the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), Europe got 16,000 tonnes of TRQ for high quality cheeses and 1,700 for industrial cheese. In the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Canada gave 3.25 percent more TRQ for dairy and 2.0 percent each for chicken, turkey and eggs. With other access already given up, this means Canada has given just under 10 percent of Canadian consumption to other countries.

The NAFTA negotiations appear to be on hold because of the US-imposed (and WTO-illegal) tariffs on steel and aluminum. But anything that Trump is involved in can turn on a dime, so they could be back on tomorrow. So, what is the best strategy?

Current data suggest major reductions in Canadian tariffs would not give up much protection. Butter will illustrate. Canada's milk prices are based on support prices for butter and skim milk powder. Canada's current support price for butter is $8.00/kg. The intent of the tariff is to keep imports out by making their landed cost (their price plus transportation and tariff) higher than $8.00.

The US Department of Agriculture's average wholesale price of butter in late March 2018 was US $4.85 per kg. Given the weaker Canadian loonie (US $0.78), this gives a US price in Canadian funds of $6.22. So, ignoring transportation costs, US butter within its TRQ can be sold in

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g7.gc.ca/en/news-media/multimedia

No one will win Trump's fight between the US and Canada

China, Russia and others who do not share our values are not standing still as Canada and the United States feud.

Laura Dawson

Why did President Trump go after Canada in such a dramatic way after leaving the Group of Seven meeting in Quebec? Perhaps he wasn't aware until he boarded his jet to leave that Canada had, two weeks prior, announced retaliatory tariffs to counter his preposterous claim that Canadian steel and aluminum threatened US national security. Perhaps, as White House economic adviser Larry Kudlow suggested, attacking US allies was a good way to show that the United States is a force to be reckoned with as Trump headed to Singapore to meet with North Korean leader Kim Jong Un.

But lashing out at Canada is a bit like slapping your grandmother. She probably won't hit you back, but it's not very satisfying and nobody respects you much afterward. Politically, a trade war with Canada provides little red meat for Trump's base, because 99 percent of trade with Canada is already tariff-free. Also, it invites Republicans and Democrats from states such as California, Ohio, Maine and Arizona, where livelihoods depend on trade, to openly oppose the White House. Rather than thanking the president for delivering new levels of prosperity, manufacturers and exporters from states such as Wisconsin are staggering under increased costs for imported inputs and lost markets for exported food and finished goods.

Meanwhile, in Canada, rather than making Prime Minister Justin Trudeau

ABOVE: Leaders of the G7 meet in Charlevoix, Québec, June 2018. (L to R) Donald Tusk, President of the European Council ; Theresa May, Prime Minister of the United Kingdom; Angela Merkel, Chancellor of Germany; Donald Trump, President of the United States; Justin Trudeau, Prime Minister of Canada; Emmanuel Macron, President of France; Shinzo Abe, Prime Minister of Japan; Giuseppe Conte, Prime Minister of Italy; Jean-Claude Juncker, President of the European Commission

look weak, Trump's tweetstorm provided his foil with a domestic "Trump bump," uniting politicians from all parties to condemn the attacks against their nation and its leader. That's not to say the Charlevoix drama and the months of political theatre surrounding the NAFTA renegotiations have been costless for Canadians. Nor will they be costless for Americans.

The Bank of Canada has already lowered its estimate for Canadian business investment and exports through 2020 by 3 percent and 1.5 percent respectively due to NAFTA-generated uncertainty. Investors will keep their hands in their pockets until North America figures itself out. That means the dispute will hurt US workers, too. Canada is the largest buyer of US exports – more than Britain, China and Japan combined. A weaker Canadian economy translates into reduced Canadian demand for US products. In the world of marketing, abusing and insulting your largest customer is seldom a recommended practice.

US national-security tariffs on steel, aluminum and the auto sector will have an immediate and punitive effect on Canada and a spinoff effect on US manufacturers and supply chain partners. Canada is counting on its US business partners to make the case to US decision-makers, but as a small economy of 34 million people, Canada might not be able to go on bleeding until Trump sees reason.

The economic implications of the trade war are bad, and fighting it out under a political spotlight makes resolution in the near term very difficult. But Canadian and American leaders have feuded before, and they will do so again. John F. Kennedy made no secret of his dislike for the Conservative curmudgeon John Diefenbaker, who refused to break ties with Havana during the Cuban missile crisis. There was no love lost between Ronald Reagan, the Hollywood actor, and Pierre Trudeau, the smug intellectual (and Justin's father). Perhaps the greatest blowup in recent memory was when Lyndon B. Johnson accused Lester B. Pearson of "pissing on my rug" after Pearson publicly criticized US airstrikes in Vietnam.

Ultimately, the US-Canada relationship is resilient and deep. It is recognizable in hundreds of thousands of connections embedded in the shared fabric of family, culture, education, sports, scientific discovery, public health and defence of our territory. The best of this relationship is seen in the instinctive response whenever the other is threatened: Think of Canadian Ken Taylor and the Iran hostages, Newfoundland's care of stranded 9/11 passengers and the thousands of Canadian travellers who have sought shelter at US embassies in hostile environs where no Canadian mission is available.

Still, the most recent attacks by Trump and his advisers will not be easy to shrug off. Canadians are hurt by the implication that they are a security risk after having fought shoulder to shoulder with Americans on the beaches of Normandy and the mountains of Afghanistan and maintained, for 60 years, a joint North American aerospace defense alliance (NORAD) that is the unparalleled in the world.

Salutary gestures like the #ThanksCanada Twitter campaign that affirm the importance of maple syrup and Joni Mitchell to the American way of life are nice, but they don't change the fact that the current US government no longer trusts – or even likes – its neighbours. While France, Britain and Germany have also been targeted by US trade actions, the effects are more directly felt by Canada and Mexico because we share a territory and an economy. Every day, nearly half a million people cross the Canada-US border, and more than a million dollars a minute in trade passes between the two countries. As many as 9 million US jobs depend on trade with Canada.

Canadians will hunker down and hope their economy survives the latest bump in the relationship. They take quiet, Canadian-like pride in the fact that there are eight Canadians among the Washington Capitals players who hoisted the Stanley Cup down Constitution Avenue on Tuesday (and zero North Koreans). But where shots across the fence are the most damaging are in their impact on North American competitiveness. The rest of the world is not standing still while we feud. China, Russia and others who do not share our values are moving in to fill the void. North America's strengths of abundant energy, resources and human ingenuity were amplified by US leadership in the global trading system. In the absence of that leadership, North America loses its competitive position in the world.

The lesson that has failed to reach the White House is that the United States does not grow stronger when it attacks the neighbours. Instead, everybody in the neighbourhood is made worse off.

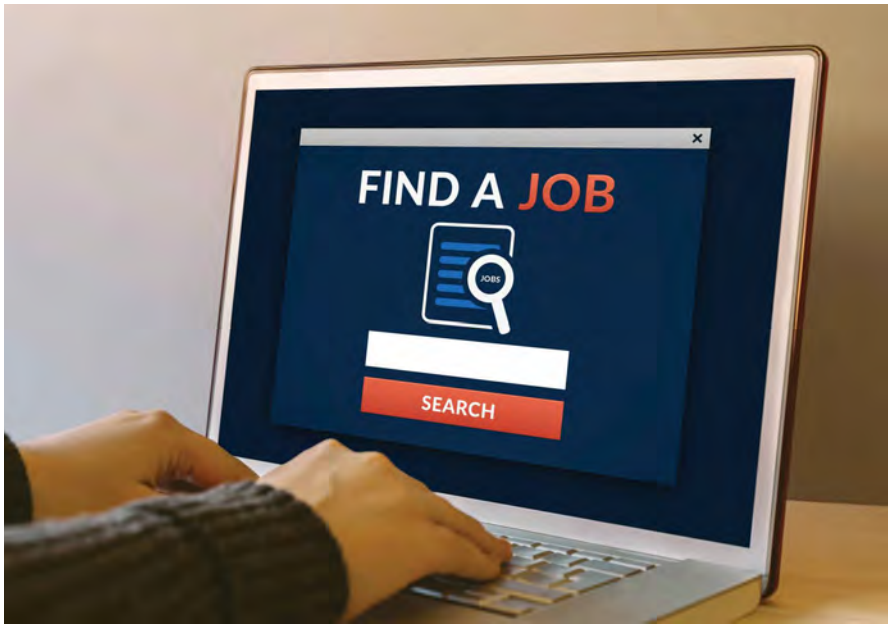
> *Rather than making Prime Minister Justin Trudeau look weak, Trump's tweetstorm provided his foil with a domestic "Trump bump."*

Laura Dawson *is the Director of the Wilson Center's Canada Institute in Washington, and a Munk Senior Fellow at MLI. This article first appeared in the* Washington Post.

Canada's losing jobs when we should be booming economically. Guess why

It all comes down to buoyant business investment in the US and weak investment in Canada.

Philip Cross



iStock

May brought another disappointing report about Canada's economy, with the loss of 7,000 jobs, the third decline in five months to bring the total decline since December to 50,000. Slumping employment is consistent with a slowdown in the underlying growth rate of Canada's GDP to less than 1.5 percent. And this slowdown is happening in spite of rapid growth in the US, which has accelerated to nearly three percent.

Canada's economy is falling behind the US on several fronts. Perhaps most striking is the difference in investment intentions for 2018. Statistics Canada found in its annual survey that firms plan to trim investment outlays this year by another one percent, their fourth-straight annual decline. In contrast, a semi-annual survey of investment intentions in the US found that firms revised up their plans to increase investment spending from a 2.7-percent increase just six months ago, all the way up to a 10-percent increase in the latest survey. The forecast of an upturn in business investment in the US already is reflected in actual spending, as business investment in the first quarter was up 6.8 percent in volume from a year earlier, nearly double the increase in the previous year.

It is not difficult to identify the reasons why business investment in the US is improving faster than in Canada. The Trump administration has been unrelenting in signalling its desire to improve the business climate, from reducing regulations to sharply lowering the corporate income tax (its consistency in staying on-message in this area contrasts with its erratic communications everywhere else). Meanwhile in Canada, several jurisdictions are doing the opposite, whether by sharply raising the minimum wage in a short period or blocking the construction of pipelines that have already met all the necessary regulatory approvals.

> *Canada's economy is falling behind the US on several fronts.*

Overhanging all this is uncertainty about the outcome of the NAFTA renegotiations, an uncertainty that gives firms an incentive to invest in the US over Canada; if talks fail, they have an American beachhead from which to produce for the US market. If talks succeed, they can export freely to Canada across the border. In such an environment, it is not surprising to see the Trump administration resisting and even escalating tensions with Canada, since continued uncertainty may actually favour the US while harming us.

The contrast between buoyant business investment in the US and weak investment in Canada is mirrored in the superior performance of the broader American economy. Compared to that three-percent underlying annual rate of growth of real GDP in the US, in Canada GDP growth has fallen to half that since mid-2017. It is now lower than before the oil slump began in 2014 despite the addition of large dollops of both fiscal and monetary stimulus.

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Trump's tariff justification is patently absurd

It's an abuse of power for the President Trump to impose unwarranted protectionist measures against steel and aluminum imports from allies such as Canada.

Charles Boustany

The Trump administration has imposed tariffs on steel and aluminum imports from Canada, declaring these imports to be a threat to the national security of the United States. This notion is patently absurd. Canadian and American troops have fought side by side in major wars, Canada is a NATO ally, and Canadian aluminum has been strategically important to the United States for many years. The United States and Canada have shared in the defence of North America in close coordination through NORAD and collaboration on intelligence matters.

The Trump administration cited Section 232 of the *Trade Expansion Act* of 1962 as the basis of authority for the investigation and imposition of these tariffs. In accordance with that law, the Department of Defense must be consulted regarding the use of national security justification for the imposition of these tariffs. In a memorandum, the Secretary of Defense called into question this national security justification for applying these tariffs to Canada and other key allies, in stating "DoD continues to be concerned about the negative impact on key allies regarding recommended options within the reports."

The *Trade Expansion Act* of 1962 was signed by President John F. Kennedy on October 11, 1962. It was hailed as President Kennedy's most significant legislative victory in his first two years in office. In remarks upon signing the legislation, Kennedy cited it as the most important piece of international legislation since the Marshall Plan.

This bipartisan legislation gave Kennedy unprecedented authority to reduce tariffs and to negotiate trade agreements. Kennedy went on to say "it marks a decisive point for the future of our economy, for our relations with our friends and allies, and for the prospects of free institutions and free societies everywhere. This act recognizes, fully and completely, that we cannot protect our economy by stagnating behind tariff walls, but that the best protection possible is a mutual lowering of tariff barriers among friendly nations so that all may benefit from a free flow of goods."

> *Canadian aluminum has been strategically important to the United States for many years.*

This bipartisan legislation was enacted during the height of the Cold War for the stated purposes of using trade agreements to:

1. Stimulate the economic growth of the United States and maintain and enlarge foreign markets for products of the United States;

2. Strengthen economic relations with foreign countries through the development of open and non-discriminatory trading in the free world; and

3. Prevent Communist economic penetration.

Prime Minister Trudeau and Minister of Foreign Affairs Chystia Freeland speak regarding the American steel and aluminum tariffs in Ottawa, May 31, 2018 (Adam Scotti (PMO)/pm.gc.ca)

In Chapter 4 of this legislative act, Sections 231 and 232 addressed imports from Communist countries and the risk to national security. This same Section 232, a relic of the Cold War, is now being used by the Trump administration to impose tariffs on friends and allies under the pretence of protecting the national security of the United States.

This is an overly expansive interpretation of US trade law, and frankly an abuse of power to impose unwarranted protectionist measures against steel and aluminum imports from allies. The Trump administration is taking this abuse further by initiating an investigation to rationalize tariffs on automobiles and auto parts. It is ironic that the *Trade Expansion Act* of 1962 is being used to impose tariffs on allies, which is contrary to the Congressional intent of that law.

Unilateral declaration of the national

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What lessons can be learned from the Toronto van attack case?

Identifying measures to help prevent such attacks in the future should be a priority.

Scott Newark

Alek Minassian, the man accused in the April 23 Toronto van attack, appeared in court to face new charges following identification of additional victims. Minassian now faces ten counts of first degree murder and sixteen counts of attempted murder. Canadians remain understandably shocked at the savagery of the attack and are now interested in how the prosecution will unfold.

The criminal case against Miniassian is obviously very strong. The case will either be resolved by guilty pleas, a criminal trial, or the defence pursuing a verdict of "Not Criminally Responsible" (NCR) pursuant to s. 16 of the *Criminal Code*. For the NCR defence, they will need to establish that, because of a mental disorder, he was unaware of what he was doing or that it was morally wrong. It has essentially become that the horrific nature of the crime is the defence. But, given the clear and specific evidence against Minassian, it is hard to imagine that it will be successful. That doesn't mean that it won't be advanced, however, so the public will need to stay tuned.

Are there lessons to be learned from this case?

Any time an incident such as the Toronto van attack occurs, it is also advisable to objectively analyse what happened and, most importantly, determine whether there are lessons that can be learned from the incident to help prevent such attacks in the future. Two key principles need to be prioritized in this effort. First, the object of the exercise is to identify possible better preventive actions and not to point fingers and assign blame. Second, given the complexity of the threat, it is unlikely that a single solution exists, which means different security contributing measures are desirable. The bureaucratic mindset that "*I can't do anything until I can do everything*" must be avoided and rejected.

Lone wolf and no copycats

After these attacks, one of the first priorities of law enforcement and national security and intelligence officials is to assess whether the attack is part of a larger plan and whether it will inspire unconnected copycat attacks. This was part of the response to the Toronto attack. Fortunately, no other attacks took place, although one other Incel online member was noted to have praised Minassian for his actions. This post-incident analysis and potential proactive strategy must be continued.

Develop better political communications

In the immediate aftermath of the attack, Public Safety Minister Ralph Goodale commented that the events "do not appear to be connected in any way to national security." Minister Goodale was almost certainly referring to the fact that the attack was not Islamist-inspired or directed. Most people had initially assumed it was, since the method of the attack was identical to what has been directed and carried out by Islamist terrorists. Given that the attack was, in fact, seemingly inspired by an anti-social ideological group targeting women and gender equality societal principles, and that it resulted in multiple civilian deaths in a public space, there are legitimate public safety and security concerns that should not be minimized. Political leaders will be called on for public comment should such incidents re-occur and those remarks should focus on the efforts to identify those responsible and to guarantee the commitment to ensuring public safety and security.

Recognize the scope of the potential new threat

Perhaps the most significant aspect of the Toronto attack was that a previously unrecognized threat adopted the Islamist terrorist methodology to achieve its goals. In this case it appears to be a narcissistic, self-entitled group of men that find validation through social media. This new online social reality must be considered going forward. There are definitely ideologically driven groups who possess the same kind of self-entitlement and arrogance.

Now we know about Incel. What other groups are there that share this kind of ideologically-driven agenda fueled by social media that has the potential for some or even one of its members to take violent action to advance the cause? As *Frontline Security*'s Chris MacLean put it in her recent op-ed on the attack, "I was shocked to hear there is a thriving social group for men who are angry that they cannot get laid. Involuntary celibates? Really?"

If a motivation as vacuous as Incel can contribute to this kind of horrific attack, what about environmental groups (pro and anti), anarchists, anti-Semitic and anti-Muslim groups, right wing or white extremists, the antifa crowd, Black Lives Matter and their opponents, or anti-immigrant groups?

> *This is a new threat and it requires a careful balancing of interests as well as fact-based and justifiably targeted applications.*

Determining if these groups or their members pose a potential threat will be a challenge for public authorities given the legitimate rights to free speech and privacy. The fact that these communications include public postings on social media sites will likely facilitate such analysis and ensure that a judicially authorized follow up authority will also be necessary. This is a new threat and it requires a careful balancing of interests as well as fact-based and justifiably targeted applications. Given the issues involved, this may be an area best led by Criminal Intelligence Services Canada (CISC) and its local offices.

Review existing tools

It will be advisable to review the existing legal toolbox to see if the existing provisions are suitable to deal with this potential new threat. This could include:

• Are existing inciting hatred/propaganda provisions sufficient? The definition of "identifiable group" in Section 318(4) has been amended over the years and is likely sufficiently inclusive to deal with these new circumstances.

• Are terrorism related definitions/offences sufficient? As noted above, the penalty provisions in the *Criminal Code* may suffice (including Section 83.27 which creates a potential life imprisonment sentence for an indictable offence that is also "terrorist activity"). But it may be advisable to specify that *engaging* in "terrorist activity" is itself a crime, whether or not it's done in support of a terrorist entity or not. This issue was identified in the recent acquittal (and NCR finding) in the Ayanle Hassan Ali case involving an Islamist inspired attack at a military recruiting centre in Toronto. The current definition of "terrorist activity" in Section 83.01(1)(b) appears sufficient.

Attention should also be given to the capabilities of authorities to get judicial orders on appropriately defined grounds to take down unlawful content on websites or on social media. This will require examination of current Section 320 (hate propaganda) and 83.221 (advocating or promoting commission of terrorism offences), the latter of which is up for revision in Bill C-59 where it unwisely raises the evidentiary standard for prosecution.

The Minassian case has revealed an evolved potential ideological and violent threat against public safety and security in Canada. Therefore, the legal framework for detection and proactive prevention must also be reviewed to ensure an appropriate balancing of interests to achieve the necessary targeted measures to address the unfortunately increased potential threat.

Social media issues

In addition to legal tools (preventive and prosecution), the fact Minassian was part of a social media group should also be

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Not to Aecon, nor to Huawei: the security of Canada can never be for sale

If the Aecon decision signals an increased skepticism by Ottawa vis-à-vis China and its intentions toward the West, that's a welcome development.

Brain Lee Crowley

Aecon Group vehicle with a spool of fiber optic cable (wikimedia commons)

Recent accolades for Ottawa's decision to disallow a Chinese state-owned enterprise's (SOE) bid for Canadian construction giant Aecon are justified, but the real takeaway is that Ottawa's policy on national security and foreign investment is an opaque, confusing mess.

Consider not just the Aecon deal, but three other Chinese companies and their Canadian activities.

Chinese telecom giant Huawei was founded by a former engineer in the Chinese People's Liberation Army and has been singled out as a noteworthy cybersecurity risk in Congressional testimony by the heads of the CIA, FBI, National Security Agency and the Defense Intelligence Agency in the United States. Of particular concern has been the prospect of Huawei equipment being integrated in the next generation of Internet 5G wireless networks that will be ubiquitous within a few years.

Even with extensive testing, understanding the function of every line of software or every piece of hardware in these systems is difficult. Yet the criticism of Chinese companies – whether owned explicitly by the state or not – increasingly heard throughout Western capitals is that they are not legitimate commercial enterprises, but unapologetic agents of the Chinese state and, even more worryingly, of the Communist Party of China.

Who knows what surveillance or even sabotage functions might be built into such networks by a Chinese state that must consider that Western governments might eventually become potential or actual military adversaries?

If an Aecon, under Chinese SOE control, building Canadian infrastructure caused Ottawa national security heartburn, you'd think that having Huawei at the heart of building the backbone of our most sensitive communications infrastructure would cause gastroenteritis.

Instead, Public Safety Minister Ralph Goodale seems rather sanguine, telling journalists last March that an eye is being kept on Huawei and it does not pose a national security threat to Canadians.

I'm glad he thinks so. His optimism is not shared by Ward Elcock, John Adams and Richard Fadden, all former heads of the main agencies charged with this country's national security, including CSIS, CSE, the Department of National Defence and others. Every one of them has gone on record warning against allowing Huawei to play any role in the development of this sensitive communications infrastructure.

Then there was last year's purchase by China's Hytera of Vancouver-based Norsat International Inc. The Trudeau government didn't consider this deal even worthy of a proper national security review either, against the advice of Mr. Elcock and Mr. Fadden, both of whom argued that a deal like this merited a full national security analysis. According to one report, "Canada and many of its allies use the company's patented satellite communications technology for security, public safety and defence."

Those allies include the United States, who were not amused to learn that one of their suppliers was now controlled by a nation whose companies are notorious for filching intellectual property. Such property ends up in the hands of the state, unsurpris-

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The international recognition of Indigenous resource rights

It has taken a great deal of time to secure the constitutional, political and legal power needed to protect Aboriginal interests.

Ken Coates

Carin Holroyd

Canadians are slowly getting used to the re-empowerment of Indigenous people and their governments. It has taken a great deal of time to secure the constitutional, political and legal power needed to protect Aboriginal interests. Less noticed is the degree to which Indigenous rights have become a global issue.

Taiwan is a case in point. The Republic of China (Taiwan) officially recognized 16 Indigenous groups. Over half a million Indigenous people live primarily in the mountainous lands on the eastern backbone of the island. The first groups were recognized by the pre-World War II Japanese-run colonial government, with additional groups being officially added in the early 21st century.

Acknowledgement brought social and cultural assistance, but it did not immediately ensure Indigenous peoples a significant place in the Taiwanese economy. But that has recently changed. The *Indigenous Peoples Basic Law* (2005, amended in 2015) has UNDRIP-like assurances of Indigenous language and cultural authority, protection for tribal governance and requirements for substantial government control.

The Basic Law also includes clear commitments on resource use. Article 20 provided recognition of "Indigenous peoples' rights to land and natural resources." Article 21 required governments or private parties engaged in land development or other activities to "consult and obtain consent" by Indigenous peoples, including participation and sharing benefits. This is an impressive commitment, coming close to the "free, prior and informed consent" as outlined in UNDRIP (*UN Declaration on the Rights of Indigenous Peoples*).

But even promising commitments run into roadblocks, as the Trudeau government has since discovered. So it has been in Taiwan. In 2017, thousands of Indigenous peoples, environmentalists and their supporters took to the streets to demand greater Indigenous control over existing and new mining projects. Pushed by these protests, the Taiwan government moved to amend the *Mining Act* to give the authorities the right to reject mining renewals and otherwise control development activities. Opponents objected to the amendment, however, believing that mining companies with existing licences could use the legislation to avoid further scrutiny.

The Taiwanese cabinet has proposed connecting the *Mining Act* to the *Indigenous Peoples Basic Act*, to re-enforce Indigenous authority. But as one activist, Hsieh Meng-yu, said, "The government only respects Aborigines when it needs them to perform in big events, but as for their rights to land and natural resources, it can find all kinds of excuses to exploit their property." In this regard, Taiwan has discovered the need to build bridges between the *principles* of inclusion and Indigenous recognition and the *practicalities* of serving both Indigenous and broader economic interests. Canada often finds itself in the same situation.

Strengthening Indigenous rights has produced better and more appropriate resource development agreements and not intractable Aboriginal resistance. Partnership on major developments and infrastructure is not a distant possibility; it is a current reality. Indigenous peoples have been negotiating effectively with resource companies and governments, securing more jobs and business opportunities, and steadily increasing their role in environmental oversight and project planning.

> *Strengthening Indigenous rights has produced better and more appropriate resource development agreements.*

This re-empowerment of Indigenous peoples has vital international dimensions. Ottawa recently announced the formation of the Canadian Ombudsperson for Responsible Enterprise (CORE) to monitor the work of Canadian resource companies overseas. This comes at a time when Indigenous groups globally are far more assertive about their rights and needs, and non-governmental organizations draw world attention to examples of abuse or conflict over development.

The CORE initiative will, if properly done, re-enforce Canada's international

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The G7 can find common cause in the South China Sea

Canada should join with the US and France in conducting naval exercises to push back on false claims of sovereignty by China.

Brian Lee Crowley

MCpl Jennifer Kusche, Canadian Forces Combat Camera | combatcamera.forces.gc.ca

The G7 can sometimes appear as an organisation in search of a mission. This drift can only be exacerbated by the trade frictions that have come to a boil recently, pitting the US against the other six G7 members.

Yet the G7 can and should play a pivotal role in the world order. Given the deadlock at the UN Security Council occasioned by vetoes exercised by Russia and China, the G7 is the premier venue assembling those developed nations that carry the burden of leadership in protecting the liberal rules-based international order. A dysfunctional G7 riven by internal disputes is of no value to anyone except those who benefit from the undefended world order.

Repairing the G7 requires common projects all members can get behind. Responding to China's repeated challenges to the international order, challenges that threaten the rule of law, freedom of the seas and a rules-based international order is an area where there is growing consensus for action. Canada is behind on this, but the G7 offers a forum to catch up and even assert leadership over an issue that actually matters.

Consider that China has unilaterally commandeered, expanded and militarised a number of islets, atolls and reefs in the South China Sea (SCS) as part of their campaign to claim Chinese sovereignty over these waters. This they have done in the face of condemnation from many of the littoral nations in the region who have unresolved claims to the area, as well the opposition of the United States and Japan.

> *The G7 offers a forum to catch up and even assert leadership over an issue that actually matters.*

Chinese President Xi promised, in the White House's Rose Garden no less, that China would not militarise these newly constructed islands. Yet in keeping with China's strategy in so many areas, their approach has been to deny, deny and deny again their intentions while moving ahead in incremental steps until the "facts on the ground" are overwhelmingly established.

Each step along the way is carefully calibrated to be just below the threshold that might trigger international action. Each subsequent step is then too easily allowed to slide on the ground that no one acted on the earlier provocation, and this time the provocation is no worse than the last one. This so-called "salami-slicing" strategy has paid major dividends for China.

The Philippines courageously took China to the International Court of Arbitration to challenge its occupying of islets and reefs over which the Philippines also claimed sovereignty. The ICA unambiguously found in the Philippines' favour and found China's behaviour an egregious violation of international law. The fact that China subsequently bullied and bribed the Philippines not to carry the case further can be no excuse for accepting the status quo.

The Americans, the great defenders of freedom of navigation, have been regularly sending ships through the SCS, and particular-

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The G7 should become the G8 again – with India in the fold

If the G7 nations want to keep their mandate as the global economy's hub shifts to the Pacific, they should woo India.

Shuvaloy Majumdar

On June 26, 2002, at a summit in Kananaskis, Alberta, then-Canadian prime minister Jean Chrétien made it official. The alliance of advanced industrialized democracies previously known as the "Group of Seven" – Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States – would be admitting its eighth member: the Russian Federation.

"This decision reflects the remarkable economic and democratic transformation that has occurred in Russia in recent years and in particular under the leadership of President Putin," read the members' statement.

If the notion of major Western powers extending such a warm hand to Putin's Russia seems hard to imagine today, it is only because geopolitical realities have shifted so rapidly over the last 16 years.

The 2002 decision was another step toward building confidence in the aftermath of the Cold War. Formed through informal conversations in the corridors of the wider transatlantic alliance in response to economic crisis, the G7 initially conceived its mandate as the economic steward of the world's major free market democracies, just as NATO sought to safeguard their security.

TOP: The Sansad Bhawan, the Parliament of India, New Delhi; LEFT: Prime Minister Justin Tudeau meets with Narendra Modi, Prime Minister of India, in Hamburg at the G20 meeting, 2017; RIGHT: Leaders of the G7 meeting in Charlevoix, Québec, June 2018

But when communism fell, calculations changed – and inviting a post-Soviet Russia into the very institution once designed to contain it was seen as an essential means through which to consolidate the peace and stability of the new global order.

President Putin, of course, did not live up to the compliments he was given in Kananaskis. Over the next dozen years, Russia's once-promising economy descended to a crude petro-state kleptocracy and client state of China's, while its democratic government collapsed into one-man rule. Old Soviet habits of domestic surveillance and control, supplemented by the subversion of sovereign neighbours, were revived with a vengeance. In 2014, as Moscow's interference in Ukraine climaxed with the annexation of Crimea, Russia was formally expelled. The G8 became the G7 again.

The Group's summitry has grown considerably to address a range of themes across a litany of sub-summits on the fringes of the leaders' meeting, tailored to the pet projects of the governments of the day. It is a fate in which multilateralism for multilateralism's sake threatens to overtake consideration of the essential economic issues of the age. But Russia's fall should not sour the G7 to the possibility of new members to reconnect with its essential mandate, particularly as fresh global realities present an obvious candidate: India.

Just as the Cold War's end was the defining geopolitical reality of the 1990s and early 2000s, so too will the shift of the planet's economic centre of gravity from the Atlantic to the Pacific define this decade and beyond. A third of all economic growth now occurs in the Pacific region, where half of humanity dwells. It's inspired the International Monetary Fund to declare it "the most important engine of global growth," a clear signal that the region's continued trends will continue to rebalance power in an increasingly multipolar era.

But behind the curtain of every optimistic conversation about the economic energy in this region is the profoundly important strategic challenge posed by the rise of China, against the norms of democratic free-market prosperity that the G7 was founded to defend. For all of China's much-vaunted economic progress following the Deng Xiaoping reforms of the 1980s, much of its economy still remains closed, state-driven, and statistically opaque – a trend explicitly intended to continue under the regressive autocracy of President Xi Jinping.

The transatlantic architecture of the past half-century could serve as a roadmap for what a transpacific one would look like today. If the vast majority of the statecraft of leaders is informed by the prosperity of their nations, the G7 only stands to benefit by expanding its Pacific presence. And that's what makes India such an appealing addition to the group.

Emerging as the Pacific's true star, India possesses the fastest GDP growth on earth and a nearly $3 trillion economy that last year rose to the world's sixth largest, ahead of the United Kingdom and just below France. For this, the government of Prime Minister Narendra Modi deserves considerable credit as it aims to achieve a $5 trillion economy by 2025. His administration has been defined by its bold agenda of macroeconomic reforms, tax modernization, and a badly needed regulatory cleanup. Emerging from its own Cold War legacy as a "non-aligned" state, and confronted by China's ambitions, this new India is forging ambitious new economic and strategic alignments. It is, in short, an essential democratic ally of the rules-based international order long championed by the Group of Seven – and while the advanced economies of Australia and South Korea could make them prime candidates for inclusion in the G7 too, the sheer scale of India's rise holds vast consequences for wider regional and global growth.

> *Let's welcome India to the table, and reward this rising power for succeeding as spectacularly as Putin's Russia has failed.*

Four years ago, Prime Minister Stephen Harper demonstrated his status as a statesman in leading the charge to expel Russia from the G8. The country had brazenly squandered an opportunity to escape its past isolation from global progress, and it suffered appropriate consequences in response. Prime Minister Justin Trudeau has his own opportunity to demonstrate seriousness as a world leader, by anchoring the world's most important economic summit to a faithful partner that's doing so much to help shape an economic order driven by international rules.

It's time to restore the G8. Let's welcome India to the table, and reward this rising power for succeeding as spectacularly as Putin's Russia has failed.

Shuvaloy Majumdar *is the Munk Senior Fellow for Foreign Policy at MLI, and a former policy director to Canadian foreign ministers.*

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We need to stop Russia's cyber and disinformation campaign

Kremlin disinformation is aimed at subverting Canadian democracy and our alliances.

Marcus Kolga

The so-called "Five Eyes" security group – Britain, Australia, New Zealand, the United States and Canada – met recently to talk about cyber attacks, mostly from Russia. The US and UK also issued a warning that Russia has been heavily involved in cyber and disinformation attacks.

It can no longer be ignored that Canada is one target of Kremlin disinformation aimed at subverting our democracy and alliances.

The expulsion of four Russian agents was a good first step in defending Canadian democracy against Vladimir Putin's attempts to eviscerate it. But a comprehensive strategy is required if we hope to avoid the experience of the US, UK, Estonia, Ukraine, France, Spain and Germany over the past years.

The global leadership Canada assumed when it adopted Magnitsky human rights sanctions legislation last fall has helped boost Canada's reputation among our allies, while drawing the ire of repressive regimes, including Russia.

Canada's Communications Security Establishment (CSE) recently confirmed that the 2015 federal election campaign was targeted by foreign adversaries and that it is very likely attempts will be made "to influence the democratic process during the 2019 federal election."

The damage caused by disinformation may not be physical or immediately visible. It is much worse, designed to turn Canadians against each other and surreptitiously infuse our democratic society with a decay that slowly breaks down our foreign alliances, confidence in our government and eventually the bonds that hold our nation together.

It is not too late for Canada to avoid the most apocalyptic outcomes if we take serious steps to counter it now.

We must first recognize that the theatres of information warfare expand well beyond the realm of cyber, and that such campaigns threaten not just our elections, but our entire democratic system. As such, efforts to defend it require an approach that begins with an understanding of the nature and complexity of the Kremlin's disinformation operations.

The core of Canada's strategy to counter disinformation must include four key principles: identification and monitoring, countermeasures, public literacy and accountability.

1. A permanent unit that communicates and coordinates between the ministries

of Public Safety, Global Affairs, National Defence and Democratic Institutions must be created to identify false narratives and actively monitor their dissemination in concert with our allies. This includes stories manufactured to discredit our soldiers operating in foreign theatres designed to undermine their cohesion and support for their missions. Fabrications that underpin destructive conjecture and inference have been attempted in order to damage the reputations of Canadian leaders on both sides of the House of Commons.

By monitoring the sources of disinformation and catching false narratives before they spread to mainstream media, we can inoculate Canadian democracy against these destructive agents before they cause damage similar to that inflicted on other western nations. This does not mean engaging in censorship or the development of counter-propaganda, but using facts and truth to defend against manipulation.

2. Many Canadian ethnic communities consume their news and information from state-owned media made available by Canadian cable TV operators and the Internet. Russian and Chinese state-owned media are known to manufacture facts that support their narratives and political objectives. By increasing support for Canadian domestic diversity programming and independent media, we can provide credible, third-language Canadian news alternatives to state-owned media, through broadcasters such as OMNI.

A national media literacy strategy must also be developed to help Canadians identify propaganda and disinformation. Understanding news sources and the importance of verified facts is critical. Awareness within government and media of when state-sponsored organizations and actors attempt to influence issues and narratives is a critical component of information warfare defence.

3. Finally, foreign governments and disinformation pedlars need to be held accountable for their actions. Canada can use targeted Magnitsky sanctions against foreign propagandists to prohibit their travel to Canada. We can also ensure that foreign propaganda broadcast on Canadian cable systems is identified as such – like warnings for films that contain foul language and violence – and that licence owners whose media broadcast foreign disinformation and hate speech, are fined.

Expelling foreign agents who engage in disinformation to undermine Canadian democracy is a good start. But a comprehensive national counter-disinformation strategy must be developed immediately to defend our institutions, elections and society against foreign powers that seek to subvert it.

Marcus Kolga *is a documentary filmmaker, human rights activist, disinformation and sanctions expert. He is a Senior Fellow at MLI's Centre for Advancing Canada's Interests Abroad.*

Ontario (Coates, Crozier)

Continued from page 4

Indigenous communities and backs their moves toward greater Indigenous self-determination. It also supports appropriate and well-planned resource development – something the province urgently needs. These agreements ultimately represent sound public policy and should attract continued support from all political parties moving forward.

That the agreement came as a pre-election surprise speaks volumes to the value of quiet and careful negotiations. It now falls to all parties – First Nations, the new Government of Ontario and the resource companies – to ensure that these agreements are honoured and that discussions continue where agreements have not yet been reached. It is possible to make progress on Indigenous affairs. With this latest announcement on resource revenue sharing, progress has been made.

Ken Coates *is a Munk Senior Fellow at MLI.* **Stephen Crozier** *is Vice-President of Corporate Affairs at IAMGOLD Corporation. This article first appeared in the* Globe and Mail.

Kinder Morgan (Holroyd, Coates)

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Important twist

More than 20 years later, and Canada has found itself in another profoundly difficult situation.

Ottawa's decision to purchase Kinder Morgan's pipeline was seemingly intended to show that the country is a safe and reliable place to invest, but it may in fact convince major companies to put their money in other countries that are easier to deal with.

To return to the question posed at the outset, and given the controversy surrounding Kinder Morgan: Would you invest in a major energy project in Canada right now?

There is an important twist at the end of this story.

The current debate has brought Indigenous influence in the energy sector to the forefront of the national conversation.

There are several Indigenous-led infrastructure initiatives – to say nothing of Indigenous interest in taking equity positions in Kinder Morgan – that could break the current logjam and change the national conversation.

Given the long and unhappy history of Canada/Indigenous relations, wouldn't that be ironic?

Carin Holroyd *is Associate Professor at the University of Saskatchewan and Distinguished Senior Fellow at the Asia Pacific Foundation of Canada.* **Ken Coates** *is*

a Canada Research Chair in Regional Innovation at Johnson-Shoyama Graduate School of Public Policy and a Munk Senior Fellow at MLI. This article first appeared in The Conversation.

Economic competitiveness (Asselin, Speer)

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means expanding competition. The 2008 Competition Policy Review Panel's recommendations to liberalize foreign-ownership restrictions in telecommunications and other protected sectors have not, for the most part, been enacted. The federal government should revisit them in the name of attracting more foreign investment and bringing greater dynamism to the domestic market.

The upshot is enhancing Canada's economic competitiveness will require a concerted, ongoing commitment to refine and reform a wide range of policies. This can't be a static process or a single-election-cycle or a partisan agenda. Our long-term competitiveness and prosperity depends on it.

Robert Asselin *is a Senior Fellow at the University of Toronto's School of Public Policy & Governance and a former adviser to Finance Minister Bill Morneau.* **Sean Speer** *is a Senior fellow at the University of Toronto's School of Public Policy & Governance, Munk Senior Fellow at MLI, and a onetime adviser to former prime minister Stephen Harper. This article first appeared in the* Globe and Mail.

Supply management (Martin)

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Canada for a very healthy profit of $1.78 ($8.00 - $6.22).

But the 300 percent tariff (again ignoring transportation costs) at $6.22 is $18.66. Adding the tariff to the cost of $6.22 gives a landed price of $24.88. In other words, in the current situation of relatively low dairy prices in the US, Canada's tariff is far higher than needed to protect the Canadian market. This is rather like using an artillery barrage to kill a fly when a flyswatter would suffice: in this example, the fly swatter would be a minimum $1.78 tariff.

Implications

Because the tariffs for supply managed products are so high, giving up a lot of tariff gives up only a little protection, whereas giving up a little TRG gives up a lot of protection. Canadian tariffs are far higher than needed to protect the domestic market.

We should expect two arguments against negotiating tariffs rather than TRQs. The first is that exporting countries can do the same arithmetic and conclude that TRQs are much better for them because the drop in Canadian tariffs required to have real impact on market access is so large. But there's nothing in the history of trade negotiation that says the exporting countries get to choose how importers provide more market access. Canada has no obligation to give up TRQs.

The second argument is one that members of the supply management industry have made for 30 years. It's the "slippery slope" argument: i.e., if we give up any tariff at all, there will be no end to demands to give up even more in trade negotiations. While that's clearly true, giving up more and more TRQ is not a slope. It's falling off a cliff: we simply give increasing parts of the domestic market to foreign suppliers and take it away from domestic farmers. At least with lower tariffs the domestic industry would still have substantial protection, would be able to adjust to meet foreign imports, thereby having a chance to compete in its own country's market.

There is clearly a choice.

Larry Martin *is Principal at Agri-Food Management Excellence.*

Guess why (Cross)

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While jobs in Canada have declined by 50,000 overall since December, the US has added nearly a million new jobs. As a result, measured on the same basis, unemployment in the US has fallen to 3.8 percent compared with 4.8 percent in Canada.

Canada's May job slowdown was particularly pronounced for BC and Ontario – provinces, not surprisingly, whose governments have adopted the most anti-business tone. BC recently led the nation with projections for four-percent job growth by mid-2019, but employment in the past year has essentially stalled (up just a tenth of a percent) despite continued gains in house construction.

The stall, of course, accompanied the arrival of a new NDP government, whose unrelenting opposition to the Trans Mountain pipeline expansion helped raise the uncertainty surrounding business investment in Canada to the point that the federal government resorted to buying the project to keep it viable.

In Ontario, employment dropped 0.2 percent since the start of the new year – with the bulk occurring in January when the outgoing Liberals' drastic minimum-wage hike took effect. Doug Ford's new Progressive Conservative government in Ontario faces a massive challenge of improving Ontario's economy after over a decade of higher taxes, ever-greater regulation, soaring hydro costs and ballooning deficits.

But Ford alone cannot change the direction this country is on. Canada's governments have badly lost focus. They all must return once again to clearly sending the message that Canada is committed to market-based economic growth driven by business investment – and not just the pacification of environmentalists and the redistribution of income away from wealth creators. If they don't, investors and our

most ambitious workers already see an alternative south of the border that looks increasingly attractive

Philip Cross *is a Munk Senior Fellow at MLI. This article was first published in the* Financial Post.

Absurd tariff justification (Boustany)

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security exception is allowed under Article XXI of the *General Agreement on Tariffs and Trade*, but it is not to be used frivolously. In the absence of a true national security justification, the use of the national security exception will invite retaliation and could lead to proliferation of protectionist measures that would undermine the global trading system. The national security exception should not be used as an ordinary trade remedy or as a means to gain leverage in the course of trade negotiations – as Trump appears to be doing in the NAFTA negotiations.

The Trump administration has now embarked on this high-risk course. This will inevitably lead to a trade war if widespread retaliation against the United States occurs, which appears to be the case. The Trump administration is retreating from America's leadership of the world's trading system and alienating key allies in the process of doing so. This approach was on full display at the recent meeting of the G7 in Charlevoix.

In warfare, supply lines matter; in a trade war, supply chains matter. Supply chains for American companies will be increasingly vulnerable as a result of Trump's retreat into protectionism. By invoking national security to provoke a trade war with allies, the Trump administration may very well achieve the opposite of its goal and do harm to American economic and national security.

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Toronto van attack (Newark)

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specifically considered from the context of possible preventive measures that could be taken in the future. These potentially include:

- Analysing the case circumstances to assess the impact on Minassian acting as he did;
- Assessing the entitled behavioural attitudes of Incel members and whether it was fostered by social media;
- Determined what triggered the attack and if it was discernible;
- Assessing if these ideological, social media-based groups can be identified, monitored and deradicalized or talked down through human interaction and counselling;
- Identifying other groups that have members (living or deceased) who advocated or engaged in violence as was the case with Incel and its idolized "Supreme Gentleman" (and mass killer) Elliot Rodger;

Other measures

These attacks on civilian populations in Mass Population Venues (MPV) are a deliberate tool undertaken by ideologically motivated groups with the specific intent of maximizing casualties, avoiding pre-attack detection, reducing expertise required for the attacker, and heightening public fear because of the continuing at-risk circumstances inherent in Western societies. As such, preventive measures must be targeted at recognized actions (see above) and as minimally intrusive on the free movement of persons and activities in our society. Once again, the necessary measures may not, by themselves, guarantee no further attacks but they may assist in preventing one which is the appropriate metric of success in this new challenge that we face. Among the measures worth examining are:

- Continuing to deploy vehicle access restrictions in specific identified MPV locations;
- Deploying drone detection, tracking and takedown capabilities for outdoor accessible MPVs (stadiums, events, etc.);
- Implementing a vehicle rental screening system so persons seeking to rent vehicles are checked against a security threat database (similar to what is currently being implemented in the European Union).

Conclusion

The fact that an individual from a non-Islamist and non-identified but ideologically motivated online group would choose to adopt an Islamist terrorist attack method to carry out a murderous mass casualty attack against civilians in Canada has been, and remains, shocking to all Canadians. It is also the new reality that must be addressed as best we can to try and prevent it happening again.

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Aecon sale (Crowley)

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ing when Chinese corporate structure must give the paramount leadership role to cells of the Communist Party of China.

Finally, Ottawa last year also approved the sale of Montreal-based ITF Technologies Inc., reversing a veto of that transaction by the previous government on the grounds that it would reveal to the Chinese authorities military technologies that give an advantage to the West.

If the Aecon decision signals an increased (and justified) skepticism by Ottawa vis-à-vis China and its intentions toward the West

in general and Canada in particular, that's a welcome development. But when this government's national security decisions on Chinese activities since coming to office are taken together, the pattern is alarming rather than reassuring.

If the government is serious now about protecting the security of Canadians in the face of explicit Chinese plans to use their country's companies to advance Beijing's interests, they need to make clear, explicit and consistent this change of heart.

One way of doing this would be to make a full national security review compulsory under certain circumstances – for example, when firms from countries that pose a national security risk (such as China) attempt to enter sectors critical to the safety and security of Canadians, such as energy, telecoms or infrastructure. Moreover, Canada needs a comprehensive long-term strategy, perhaps using a Canadian version of America's US-China Economic and Security Review Commission and co-ordinating with such bodies in other Western governments to share information and protect shared interests.

To better educate the public on these dangers, the government also needs to be as forthcoming as possible about the conclusions of these reviews.

The security of Canadians can never be for sale.

Brian Lee Crowley *is Managing Director of MLI. This article first appeared in the* Globe and Mail.

Indigenous resource rights (Coates, Holroyd)

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reputation for social justice and support for Indigenous peoples, and promote even more effective business relationships between Canadian firms and Indigenous communities.

The Taiwanese and Canadian developments are part of a growing international trend. Native Americans have developed strong partnerships with resource firms, notably in Alaskan mines and western oil and gas fields. Australian firms have long collaborated with Canadian companies and have comparable approaches to working with Indigenous communities. Sami peoples in Scandinavia are facing considerable pressure to accept resource projects in their territories and are interested in the relative effectiveness of Canadian practices.

Prime Minister Justin Trudeau has made collaboration with Indigenous peoples a centre-piece of his government's agenda. But he has discovered, as have the Taiwanese authorities, that it takes good will and commitment to transform pronouncements about Indigenous recognition into consistent action and real Indigenous authority. Indeed, countries around the world are discovering that it's not so easy to truly share power with Indigenous authorities on major economic and development files.

The first step is a major advance over the colonial and paternalistic policies of recent years. The next step, one reflecting true partnership with Indigenous peoples, requires a continued high level of commitment and collaboration.

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South China Seas (Crowley)

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ly into those waters near China's unilaterally commandeered and militarised islets, to China's great displeasure. Now, according to the *Wall Street Journal*, a French warship was dispatched by President Emmanuel Macron on a similar freedom of the seas mission. That warship, carrying a British helicopter detachment and European observers, including from Germany, sailed close to the Chinese-seized Spratly Islands. In one memorable confrontation, the French ship was radioed by the Chinese who baldly asserted that the islands were under Chinese sovereignty and asking the French to declare their intentions. The French, with all the aplomb of a Paris waiter looking down his nose at a hapless customer, responded that they were in international waters and the Chinese were not in a position to ask anything.

When questioned about the mission, the French defence minister asserted that "The [Chinese] fait accompli is not a fait accepted." France has been carrying out such missions in support of freedom of the seas for several years. The Japanese, long concerned about the dangers to their shipping from Chinese assertions of sovereignty over the SCS, have been anxiously looking for support on this issue from their allies.

Canada sailed two frigates through the SCS last year, and avoided going close enough to the disputed islands to trigger a Chinese response. This year Canada has made it official that they are not doing official freedom of navigation missions, defined as going within 12 nautical miles of the disputed islands.

That's not enough. America and Japan are looking for allies in their contesting of Chinese aggression. The French and the British are on board and the Germans observing. This is an issue ripe for some leadership and who better to offer it than the chair of this year's G7 summit?

A G7 united in defence of the rule of law, freedom of the seas and a rules-based international order and against Chinese assaults on all three would give the organisation a new lease of life and benefit the world.

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