

THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

INSIDE POLICY

SEPTEMBER 2018



FIRST DO NO HARM

Does Canada need a single-payer pharmacare system?

Also INSIDE:

Monuments and
reconciliation

First Nations don't
want handouts

Canada isn't
blameless on
NAFTA

Tariff battle
revives Chinese
free traders





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THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

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From the editors

The federal government is currently looking into the possibility of a national pharmacare scheme. Yet, as outlined by Munk Senior Fellow **Sean Speer** in the cover feature, this would represent an unprecedented expansion of Ottawa's role in Canadian health care. **Speer** goes on to highlight a more incremental approach to reforming Canadian pharmacare. Munk Senior Fellow **Richard Owens** and **Stephen Ezell** also warn about the dangers of Canada's artificially low pricing of patented drugs.

Canada's lacklustre approach to drug pricing is a sore point between Canada and the United States. But it is not the only significant point of disagreement. Manager Director **Brian Lee Crowley** and **Speer** make clear that Canada is not blameless when it comes to the deteriorating relationship between the two nations. In terms of a new NAFTA agreement, Communications Manager **Brett Byers-Lane** also details another major stumbling block – Canada's antiquated system of supply management for its milk, cheese, and eggs, which is in the country's own economic interest to radically overhaul.

It would also be in our interest to ensure that Canada's fiscal policy is sustainable over the long-term, as argued by **Speer** and **Robert Asselin**. According to **Crowley** and **Speer**, Ontario's focus on job creation instead of a basic income should be commended. So too should its focus on cutting wasteful municipal spending. This increasingly important issue is explored by **Speer** and **William Lundy**.

On foreign policy, Munk Senior Fellow **Eric Lerhe** reveals why Canada should also strengthen ties with Taiwan. The ongoing Sino-American trade war is another area that should concern Ottawa. Fortunately, as Munk Senior Fellow **Duanjie Chen** writes, it has had one unintended benefit – Chinese free traders have become more vocal in their veiled criticism of Beijing's own poor economic behaviour.

Joel Sokolsky and Munk Senior Fellow **Christian Leuprecht** point out the need to strengthen the trans-Atlantic link. This is increasingly important, especially given Trump's appeasing behaviour towards Russia's Vladimir Putin, explored further by Deputy Editor **David McDonough**.

Munk Senior Fellow **Shuvaloy Majumdar** argues that Canada is in a position to leverage its energy assets internationally. The value of more traditional forms of energy is discussed by Munk Senior Fellow **Philip Cross**. Regrettably, the courts have ruled against the Trans Mountain pipeline, even if, as Munk Senior Fellow **Ken Coates** notes, there still is a way forward.

Resource development offers economic opportunities to Indigenous people. According to **Sharleen Gale**, First Nations need business opportunities instead of handouts. Simply equating tearing down statues like those of John A. Macdonald with Indigenous reconciliation, adds **Crowley**, does not help anyone.

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Tearing down statues is not reconciliation

Canadians should instead embrace the creation and display of new monuments celebrating Indigenous leaders and groups.

Brian Lee Crowley

Unsurprisingly for the head of an organization called the Macdonald-Laurier Institute, I believe the current campaign of vilification and erasure being carried out against Sir John A. Macdonald, architect of Confederation and our first prime minister, is both wrong and unjustified. On the other hand, I warmly welcome the desire for reconciliation with Canada's Indigenous peoples that justifies this campaign in the minds of many people of good will.

Can the desire to celebrate the history of perhaps the finest country in the world, and that of seeking reconciliation with Indigenous people who feel wronged by that history, be made to co-exist? I believe they can and that we should try.

Remembering that the most recent attack on Sir John's reputation was the removal of his statue from the city hall in

Victoria, BC in the name of reconciliation, the meaning of that word is worth reflecting on. Perhaps the most famous truth and reconciliation (T&R) effort in the world was South Africa's following the end of the odious apartheid regime.

The values behind that country's T&R commission were movingly expressed as: "a need for understanding but not

ABOVE: Public statues of Sir John A. Macdonald: (left to right) Victoria Park, Regina, SK; Place du Canada, Montréal, QC; Queen's Park, Toronto, ON; Gore Park, Hamilton, ON; Parliament Hill, Ottawa, ON.

The problem I have with the overall approach to tearing down statues and buildings is that it is counterproductive to ... reconciliation because it almost smacks of revenge or smacks of acts of anger, but in reality, what we are trying to do is ... create more balance in the relationship.”

– Senator Murray Sinclair

for vengeance, a need for reparation but not for retaliation, a need for ubuntu [kindness] but not for victimization.”

As one acute observer explained, “[t]hus, what [T&R] commissions seek to undo is the deep-rooted human need for vengeance as a means to address past wrongs.”

Reconciliation requires all the parties to focus on the future, which is in our power to shape, not the past, which cannot be changed. It requires them to bring great generosity of spirit to the endeavour, to forswear revenge and retaliation because they only sow the seeds of future conflict. Instead we must look for ways to accept responsibility for past wrongs, to accept genuinely-offered gestures of restitution and healing and to show each other kindness and compassion. That sows the seeds of future comity.

The decision to remove Sir John’s statue and the larger effort to shame him and his contribution fail these tests of genuine reconciliation. And I cite no less an authority than Senator Murray Sinclair, who chaired Canada’s own T&R commission. In 2017 he said, “The problem I have with the overall approach to tearing down statues and buildings is that it is counterproductive to ... reconciliation because it almost smacks of revenge or smacks of acts of anger, but in reality, what we are trying to do is ... create more balance in the relationship.”

The revulsion with which the vast majority of Canadians have greeted the decision to remove Sir John’s statue shows that this gesture fails the tests of reconciliation because non-Indigenous Canadians do not accept the reducing of their illustrious founder to a one-dimensional caricature, based on a policy that was widely accepted and supported at the time. Far from promoting reconciliation, this will only create resentment and resistance to real efforts at reconciliation that address the future, not the past.

Nothing will dispel the appetite for reconciliation faster than the belief that Canadians who are justly proud of their country must hide these sentiments away and look on silently, while our founders are treated as criminals whose names must never be mentioned in polite company.

Does that mean that nothing could have been done to recognize Indigenous feelings about the historical facts of traditional Canadian “Indian policy”? Of course not. New interpretive material could have accompanied Macdonald’s statue, fully recognizing his role in helping to create Canada’s early Aboriginal policy, along with his many more positive accomplishments, which include, by the way, being an early advocate of women’s rights and the prime minister who gave Aboriginal people the vote (later taken away by Sir Wilfrid Laurier’s Liberals).

More importantly Canadians would have embraced the creation and display of new monuments celebrating Indigenous leaders and groups who made noteworthy contributions to their community and to Canada. It is precisely this that Senator Sinclair has called for in the true spirit of reconciliation: not the bringing low of the towering non-Aboriginal figures of our history, but the raising up of their Aboriginal equivalents.

As a former chief justice of the Supreme Court of Canada once famously said, none of us is going anywhere, by which he meant that Indigenous and non-Indigenous Canadians must learn to live together, for there is no alternative. How we understand and pursue reconciliation will determine whether we do so in mutual respect and co-operation or mutual distrust and hostility.

Put Sir John back in a place of honour, use the restoration as an occasion to expand our understanding of his errors as well as his feats, and celebrate Indigenous history and heroes too. That exemplifies the two-way street of genuine reconciliation, seeking neither retaliation nor vengeance, but offering instead understanding and kindness. There is still time. ❁

Brian Lee Crowley is the Managing Director of MLI.
This article first appeared in Postmedia News.

Everyone needs to take a deep breath after the Trans Mountain ruling

The federal court's ruling against Trans Mountain does not mean the end of resource development in Canada.

Ken Coates

The Federal Court of Appeal decision that halted construction on the Trans Mountain Pipeline expansion has thrown Canada into a tizzy.

While British Columbia First Nations and environmentalists are celebrating a rare court victory on this project, industry representatives, trade unions and many other First Nations who supported the expansion feel the decision is a nightmarish intervention in plans that were many years in the making.

The court found major shortcomings in Canada's consultation processes, but it has also delayed and maybe overturned what was perhaps the most extensive and comprehensive engagement process in Canadian history.

Advocates for the Canadian oil and gas industry – and there are many Canadians with a major stake in the continued success of this vital sector – can legitimately wonder if there is any real opportunity to deliver this highly valuable product to international markets.

Economic hell to pay?

If the answer is no, there will be economic and governance hell to pay. The minority of British Columbians who favour a truly hard stop on the pipelines have found a way to impose their will on an entire country.

After this ruling, is there a future for the Canadian oil and gas industry? Yes, but the path forward is complicated.

The country already has some of the world's highest standards for energy explora-

tion, development and shipment. Closing or slowing Canadian exports will have little or no impact on world consumption because current and potential customers have many other viable sources of supply.

A less attractive place to invest

Canada's major advantage in the oil sector has traditionally been the quality of its administrative and legal processes and the security of Canadian deliveries. Over the last few years, however, Canada's energy has started to look like a much less attractive investment – despite major progress on securing Indigenous involvement in the industry and the adoption of higher environmental standards.

2011 election – and the cancellation costs eventually totalled \$1 billion.)

Neither group is going to back down and they will use every legal method – and some extra-legal – to stop the pipelines and related shipping.

Consultation works both ways

The situation is much more complicated than the standard portrayal of the oil industry versus environmentalists and First Nations. The requirement for consultation works both ways.

In the Far North, the governments of Nunavut and the Northwest Territories are still upset about the Trudeau government's unilateral moratorium on Arctic oil and gas.

Is there a future for the Canadian oil and gas industry? Yes, but the path forward is complicated.

A major part of the problem is that opponents are intractable. Environmentalists motivated by the extreme position on climate change are determined to keep Canadian oil and gas in the ground.

They are joined by West Coast First Nations who prioritize the ecological safety of their traditional territories – something almost any group, Indigenous or otherwise, in Canada would do. (Public pressure in Mississauga and Oakville prompted the Liberal government in Ontario to cancel controversial gas plants a week before the

If the coastal First Nations in British Columbia argue they were not consulted properly on a decision to proceed with a major project, what would the legal status be for Arctic peoples and governments who were not consulted at all about the closure of a major economic opportunity?

There are also First Nations in northern British Columbia who were not consulted before the federal government's

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First Nations want access to capital, not handouts

Indigenous entrepreneurs can create opportunities for our communities that will help build prosperity for all Canadians.

Sharleen Gale

For generations, First Nations communities have been constrained by the *Indian Act* and decades of government paternalism and over-regulation. We did not have the chance to break into the modern economy and lacked the basic business tools available to other Canadians. We could not borrow money to buy and build our homes, let alone get the funds needed to make major investments.

First Nations are proud people – and we have a history of trade and commerce that goes back thousands of years before newcomers came into our land. We want to build local economies and create jobs and new businesses in the process. To break the cycle of poverty and to put our people back in control of their lives, requires access to capital.

First Nations have been petitioning the government of Canada for years, requesting access to investment capital. For example, the federal government is using Export Development Canada to underwrite its purchase of the Kinder Morgan Trans Mountain Pipeline. This kind of funding is but one of several options available to the federal and provincial governments to facilitate First Nations participation as owners in major projects.

Please understand something very important: First Nations are not looking for handouts or “free money.” We understand business and the value of large and long-term equity investments. Where possible, we leverage our resources to attract money for our business plans. Our First-Nations-



“
We are not the
First Nations
governments and
communities of
yesteryear.”

owned business are expanding rapidly, and our Aboriginal Economic Development Corporations have become major players in regional economies.

We are looking for access to capital based on solid and externally validated business cases. We are considering major investments in infrastructure that impact our traditional territories.

Most Canadians have only a limited sense of how much First Nations business is changing across this country. First Nations people own hundreds of businesses. Our communities, through their economic development corporations, have made major investments and are engaged in constructive and successful collaborations with resource, infrastructure and other businesses.

We are not the First Nations governments and communities of yesteryear, when we lived under the constant control and surveillance of the government and faced major limitations on our business operations. Many of our communities are asserting our traditional values to influence commercial terms

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Building on what works for Pharmacare

Instead of a one-size-fits-all government pharmacare model, we should focus on targeted, incremental reforms of the current system.

Sean Speer

The creation of a federal panel on pharmacare suggests that a new national model for public drug coverage has growing momentum.

The case for pharmacare basically rests on the argument that Canada's Medicare project is incomplete. The so-called "fathers of Medicare" (including Tommy Douglas, Lester Pearson, and Emmett Hall who chaired the Royal Commission on Health Services) made an error in the mid-1960s by excluding prescription drugs from public insurance coverage. Pharmacare proponents see their policy mission as correcting this initial mistake.

The argument isn't completely unfounded. Pharmaceuticals were a small share of health-care expenditures back then. The industry was still rather rudimentary. The explosion of innovation and technological development was decades away. Drugs just didn't matter that much at the time. Had Douglas, Pearson, Hall, and others known that drug spending would surpass doctors/physician services as the second biggest health-care expenditure (as it did in the mid-1990s) they may have chosen to cover it from the beginning.

under a mandatory government plan with less choice and personalized design.

The most important is the range of drugs covered – particularly as new, more specialized drug products enter the market. Research finds that private insurance plans cover a much wider range of drugs than public ones. As an example: One analysis of the 39 new drugs approved by the Department of Health in 2012, showed that 36 (92 percent) were covered by at least one private drug plan compared to only 11 (28 percent) that were covered by

the government(s) sought to impose a mandatory public model that disrupted the status quo for more than two-thirds of Canadians. We cannot and should not merely graft single-payer coverage onto the current regime which has taken shape over 50 years.

Especially since a large-scale pharmacare program would be massively expensive. Estimates put the price tag at approximately \$20 billion per year. The Institute of Fiscal Studies and Democracy rightly points out that its adoption would



But the key is to build on what works rather than singularly focusing on what needs improvement.

But they didn't. And instead, through trial and error, a different type of insurance model has evolved over the past half-century. In their zeal to complete the Medicare project, pharmacare proponents frequently ignore this fact. They shouldn't.

The fact is that the current hybrid model – a combination of private insurance and targeted public programs – generally works well. There are certainly areas for improvement, as we've previously set out. Out-of-pocket spending is rising for certain parts of the population and there's scope to design targeted public interventions to assist this cohort. But any reforms ought to build on the strengths of the current model rather than sweep it away in an ideological exercise.

Nearly 70 percent of Canadians receive prescription drug coverage through an employer-sponsored private plan. This includes adults and their dependents. More than one-third of total drug spending is covered by private insurance plans. A significant majority of the population and a considerable share of drug spending is being covered by the private market.

By most measures, these individuals are being better served than they would be

at least one public plan. And the average timeline for expanding coverage to account for these new drugs was 143 days for private plans and 316 for public plans.

It makes little sense to impose a one-size-fits-all government pharmacare model on this share of the population, which are generally well-served by the current system. One's ability to choose and design his or her own drug plan will only grow more important as new forms of personalized medicine become widely available. Yet pharmacare would necessarily limit one's options and force us into pre-designed public plans focused principally on minimizing public cost. This isn't a theoretical point. It's the same reason why we have long wait times and poor access to medical technologies in our hospitals. Rationing in public drug coverage would just manifest itself as narrower formularies.

It's a losing policy and political strategy to tell 24 million people that they must give up their prescription drug plans in exchange for poorer ones, especially since many of these benefits have been won through collective bargaining. One can envision various court challenges if

require a combination of spending cuts and tax increases.

And the upshot of such a plan? We'd spend \$20 billion and millions of Canadians would get inferior coverage from what they have now. This is a bad trade-off.

Instead, the provincial and territorial premiers should focus on targeted, incremental reforms that seek to support those who are overburdened by out-of-pocket spending. The Ontario government's targeting of the OHIP+ program for those without private insurance under 25-years old is a good example. There are also other steps that can be taken, including reforming how federal government subsidizes the purchase of private insurance and adopting co-payments in order to bring greater market discipline and to defray the costs of expanding public coverage to those who need it.

But the key is to build on what works rather than singularly focusing on what needs improvement. That ought to be the subject of discussion in Canada. 🍁

Sean Speer is a Munk Senior Fellow at MLI.

National Pharmacare: a departure from past legal and policy thinking

A federal foray into pharmacare would represent an unprecedented expansion of Ottawa's role in Canadian health care.

Sean Speer

The Trudeau government's study of a national pharmacare scheme may ultimately lead to the grafting of drug coverage onto Ottawa's current role in Canadian health care. It would represent a historic, new federal intrusion into health-care administration and delivery that runs counter to long-standing views about federal involvement in health care.

Just consider the origins of the federal Department of Health nearly 100 years ago. At the time, the Department of Justice strongly held that the federal authorities had no legal basis for involvement in health matters other than those specified in Section 91 of the *British North America Act*. This

perspective wasn't universal of course but it generally informed and shaped Ottawa's role in subsequent decades. As one source observed: "this pronouncement was to have long-term consequences for the development of health policy."

A new, national pharmacare scheme would thus represent a substantial departure from key parts of past legal and policy thinking. At minimum, there ought to be an effort on the part of federal policy-makers to grapple with the origins and evolution of the federal role in health care and how national pharmacare would fit in this historical context. Good intentions or political expediency or whatever other motivations are insufficient. Historic institutions such as Canadian federalism

must be engaged. So must the evidence of past experiences with successful reforms and policy failures.

A new MLI study, titled "The Federal Department of Health Nears 100: The Origins and Evolution of the Federal Role in Health Care and the Case for Reform," aims to bring these considerations to bear in the current pharmacare debate.

The paper starts with an underlying assumption, based in large part from my previous experience with the federal government, that policy-makers, media, and the general public don't tend to think much about the federal Department of Health and its role in Canadian health care. How did it come about? What does it do? Why do we have a federal Department of Health but not a federal Department of Education? These types of question are basic elements of public policy. Yet few of us – including me during my time in government – are posing them.



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The purpose of the paper, then, was to ask some basic questions about the federal government's role in health care in general and the origins, evolution, and activities and functions of the federal Department of Health in particular. Think of it as a basic primer that can help inform the public discussion about health-care policy. Or a conversation starter about what Ottawa should be doing to enable and promote better health outcomes for Canadians.

Ottawa can be humbler about its ability to “fix” Canadian health care.

The paper charts, in broad terms, the origins and evolution of the federal role in health care as a manifestation of economic, social, and political trends over the past 100 years. It highlights how bursts of federal activism were marked by various intellectual and political currents. Basically, the history of the federal Department of Health follows the ebb and flow of these bigger trends.

The creation of the department itself was a reflection of post-WWI social progressivism that was focused on the public health issues associated with mass urbanization. The development and expansion of public health insurance was part of a larger post-WWII trend towards social insurance and the welfare state across western countries. The massive infusion of federal funds in 2003/04 (what then-Prime Minister Paul Martin called a plan to “fix Medicare for a generation”) was driven by a provincial and territorial reaction to the fiscal retrenchment of the 1990s and the political transition from Jean Chrétien's government to Paul Martin's in Ottawa. There are various other examples of interaction between federal health policy and the broader economic, social, and political milieu. Our paper seeks to help policy-makers, the media, and the

general public understand these inflection points and how they've shaped health policy thinking in the nation's capital.

Which brings us back to the Trudeau government's possible foray into pharmacare. There are various factors now contributing to its efforts – including electioneering, public concerns about drug expenditures, provincial/territorial fiscal issues, and progressive ambitions about expanding the entitlement state.

Irrespective of the motivation, a new, national pharmacare scheme would represent a major new policy initiative that would expand Ottawa's role in Canadian health care in an unprecedented way. Assuming responsibility for expenditures and functions hitherto carried out by the provinces and territories would be a marked departure from historic thinking about federalism in general and the federal role in health care in particular.

As we describe in the paper (and various other MLI outputs), it would also fail to learn the lessons of recent episodes of health-care reform when progress has tended to be correlated with a more circumscribed federal involvement. There are various reasons for this – including the perverse incentives associated with an infusion of federal dollars and conditions and the limits of top-down, centralized priority-setting.

Why would we assume that Ottawa is uniquely positioned to judge how provinces and territories ought to reform their respective health-care systems? Why would we assume that health priorities are uniform across the country? Why would we assume that the provinces and territo-

ries can't act as policy laboratories where good ideas can be tested, refined, and ultimately scaled elsewhere? And why, after several decades of a bottom-up evolution of public and private insurance arrangements, would we assume that now Ottawa should establish mandatory, single-payer drug coverage – especially since it had a minimal role in this area historically?

Charting the origins and evolution of the federal role in Canadian health care should lead policymakers to cautious responses to each of these questions. It gives one a renewed sense of the strengths of federalism and the capacity of the provinces and territories to shape, drive, and ultimately catalyse health-care reform in Canada. The corollary is also true: recent episodes of over-sized federal ambition in health care (particularly the 2003/04 health accord) has tended to lead to stasis and poor health outcomes as well as exacerbating the trend towards fiscal unsustainability.

The upshot is that lessons from the past show that Ottawa can be humbler about its ability to “fix” Canadian health care. It doesn't mean that there's no federal role, as the paper shows, but it does mean that its role should be to the extent possible about enabling experimentation and reform at the provincial and territorial level. The trepidation about federal overreach that guided Ottawa's health policy nearly 100 years ago is still a good starting point.

Asking these questions – how did we get a federal Department of Health, what does it do, and why does it do it? – must be front and centre as the Trudeau government considers whether to proceed with national pharmacare. The lessons from history can be enlightening. And humbling for those with national ambitions. ✨

Sean Speer is a Munk Senior Fellow at MLI and is author of the MLI study “The Federal Department of Health Nears 100.”

Trump is right – Canadians are unfairly freeloading off American drugs

Canada's approach to drug pricing reflects its failure to be a globally leading innovation culture.

Richard Owens

Stephen Ezell

President Donald Trump recently called out 24 countries, Canada among them, for not paying fairly for patented medicines. Our artificially low patented drug prices, he argues, leave US citizens to bear too much of the costs of development and approvals of new medicines. In his eyes, we're freeloaders. "When foreign governments extort unreasonably low prices from US drug-makers, Americans have to pay more to subsidize the enormous cost of research and development," he said last month.

He's right. This is part of Trump's larger vision for trade: that the US will cease subsidizing foreign markets. Canada has to grow up in our approach to trade and regulation.

Canada's prices for patented drugs are artificially low because they are regulated by the Patented Medicine Prices Review Board (PMPRB). Our prices are 25-percent below median foreign-patented drug prices, and far lower than American prices. On top of this discount, the federal government is proposing complex changes to PMPRB drug-pricing regulations that would reduce patented prices by a further 20 percent and diminish drug-company revenues in Canada by approximately 25 percent. If this strikes you as egregious expropriation, you're right.

Yet, as a recent Information Technology and Innovation Foundation report demonstrates, many countries use their central government's power as a monopsony purchaser or regulator of drugs and devices

to limit the prices foreign biopharmaceutical firms are able to charge for their exports, thereby artificially depressing earnings and inflating foreign trade deficits in the large US life-sciences sector.

Life-sciences innovators depend upon the profits earned from one generation of biomedical innovation to finance investment in the next. That's why academic research finds an almost one-to-one (0.97) correlation between bio-pharma enterprises' sales and R&D expenditures, as well as a statistically significant relationship between a bio-pharma enterprise's profits from the previous year and its R&D expenditures in the following year.

If all countries paid their fair shares for novel medicines, we'd all have more of them. New research from Precision Health Economics finds that if government price controls in non-US OECD (Organisation for Economic Co-operation and Development) countries were lifted, the number of new treatments available would increase by nine to 12 percent by 2030 (equivalent to eight to 13 new drugs in that year), potentially increasing the life expectancy of someone who is today 15-years old by 0.8 to 1.6 years on average. Other research finds that such greater levels of bio-pharma innovation could provide increased welfare gains of at least US \$10 trillion for North Americans and US \$7.5 trillion for Europeans over the next 50 years, reflecting improved length and quality of life and reduced health care costs.

From an innovation-policy perspective, Canada's patented-drug pricing policies are

a disaster. Canada wants to have both drug company investment and lower prices here. We want innovation without taking the necessary steps to get it.

To demand that anyone subsidize our needs, as we demand of drug companies and American consumers, is a Third World policy unbefitting our First World country. Simply put, it's time for Canada to grow up and to purge the defeatist parasitism that sometimes characterizes our policy-making. Free-riding on drug prices is an example of how Canada refuses to step up to what is required for a globally leading innovation culture.

We do not suggest that Canada abandon impoverished patients who cannot afford sophisticated medicines. Rather, that the burden of supporting them should fall on Canadians, not on drug companies – and not on American patients. Moreover, by paying market prices, drugs will become available in Canada more often and sooner. More lives will be saved. Ironically, the logic of public health does not argue for depressing drug prices, but for paying the market price.

Canada should seek to cultivate an environment that ensures both that Canadian life-sciences innovators can flourish and that Canadian citizens enjoy world-class access to tomorrow's life-saving treatments. 🌱

Richard Owens is Munk Senior Fellow at MLI and adjunct professor at the University of Toronto's faculty of law. Stephen Ezell is vice president of the Information Technology and Innovation Foundation in Washington, DC. This article first appeared in the Financial Post.

Fiscal policy must be sustainable over the long term

More than \$140 billion in annual federal program spending should come under the microscope.

Sean Speer

Robert Asselin

Next year's federal budget may be months away, but preparations have already begun in earnest. The House of Commons Standing Committee on Finance's call for prebudget submissions was launched in June and closed in early August. There will be hundreds of recommendations from various organizations for the committee and the Finance Minister to consider between now and the budget's tabling. Some will be good. Others will be bad. Most will involve more spending and have a short-term focus.

What will generally be lacking from these submissions is a fiscal policy framework that protects Canada's long-term fiscal capacity and roots public spending choices in clear and evidence-based benchmarks. This is something that should transcend partisanship or ideology. We can debate what government should do, how it should do it and who should pay for it. But we should be able to agree that public spending should be efficacious and fiscal policy must be sustainable over the long term. It's ultimately about arithmetic, the proper stewardship of taxpayer resources and protecting our collective ability to make the right policy choices in the future.

Response to recession

The global financial crisis in 2008-09 provoked an enormous monetary and fiscal stimulus from Canadian governments to minimize the negative effects on investment and employment. Monetary and fiscal tools were used to their full potential. The Bank

of Canada's policy rate (or the target for the overnight rate, as it is often called) was reduced to its lower bound of 0.25 percent in 2009. Federal fiscal stimulus – that is, deliberate, short-term incremental public spending – reached nearly \$50 billion alone.

These extraordinary measures generally worked. The recession was shorter and shallower here than in most jurisdictions. Canada's prudential regulatory framework, rules-based monetary policy and sound public finances were major reasons for our relatively positive performance. Long-term thinking on the part of successive Canadian governments had provided the policy flexibility needed for an effective response. As the former Bank of Canada official Jean Boivin put it: "This favourable position gave Canada the flexibility it needed to respond strongly to the crisis without compromising the credibility of our public policy frameworks."

Yet it's been more than nine years since the end of the recession, and there remains a monetary and fiscal hangover. Interest rates remain historically low. Ottawa and most of the provinces (with the exception of Quebec) are running budgetary deficits for the foreseeable future. Canada's "favourable position" is assuredly weaker now.

The hard truth is that policy-makers will have almost no policy leverage when the next recession hits – which, according to historical trends, tends to occur every eight years or so. The Bank of Canada's overnight rate is still only 1.5 percent and can't go much lower if things get worse. Monetary policy flexibility is thus much more limited now. Ottawa's deficit is now less than 1 percent of GDP;

increasing it to 2 or 3 percent for stimulus purposes would bring it to a substantial level. And the risk, of course, is that under weaker economic conditions, short-term deficits could become structural and permanent.

Policy-makers will have almost no policy leverage when the next recession hits.

Taking the longer view

It is important therefore that fiscal policy be used wisely at the various stages in the economic cycle. Deficit spending should be mostly reserved for times of significant drops in economic activity rather than for periodic fluctuations, and it shouldn't be used to fund new or recurring spending with no link to economic growth. The goal should be a stable, predictable fiscal framework that relies on budgetary deficits only in specific and extraordinary circumstances.

We only need to look to the United States to see the negative effects of the normalization of budgetary deficits due to both unfunded tax cuts and unsustainable spending. A new report from the Congressional Budget Office shows that US fiscal profligacy has led to a deficit of 5 to 6 percent of GDP, and

debt-servicing costs are poised to emerge as Washington's single largest government expenditure within 30 years. This isn't trivial. The eventual fiscal adjustment in the form of tax increases and deep spending cuts will be costly and disruptive. The only question at this stage is its magnitude.

end in itself. A singular focus on budgetary balance can wrongly justify any or all new spending as long as revenues and outlays are reconciled. It's just as important that we have clear benchmarks for evaluating ongoing and new public spending on its own merits.

spending for 2017-18, more than half comprises major transfers to persons (such as old age security and employment insurance) and major transfers to other levels of government (such as the Canada Health Transfer). The remaining share is called "direct program spending." It includes \$95 billion in operating expenses such as salaries and benefits.

Even if one sets aside the major transfers to persons and other levels of government, there's nearly \$140 billion in annual spending that ought to face tough questions. Here are some tests:

- What is the public rationale?
- Does it duplicate other federal spending or programming by other levels of government?
- Is it delivered efficiently?
- Is it achieving measurable results?

We're certainly not proposing draconian cuts. But, having been through several budget-making exercises, we can confirm that there's a need to rethink how we scrutinize new and existing public spending. Establishing an evidence-based process would not only help to improve fiscal sustainability over the long term, it could help the finance minister and Parliament to weigh new spending proposals against existing spending and to direct scarce public resources to those programs and services with the most "bang for the buck."

Politics invariably forces governments to make short-term budgetary choices that have financial implications. That's the case with any government. But the key is to try to focus on the long term to the extent possible. A clear fiscal policy framework can help. ❁

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There's a need to rethink how we scrutinize new and existing public spending.

The path to fiscal unsustainability has considerable generational implications in terms of both cause and effect. The aging of the Canadian population only reinforces the need to protect our long-term fiscal capacity. The senior dependency ratio – that is, the ratio of individuals 65 years of age and older relative to the population between 15 and 64 – is projected to rise from 25 percent in 2016 to 40 percent by 2040. This shift will place further pressure on public budgets: more money will be needed to fund higher pension benefits and health care spending, while growth in the labour force and in the overall economy will be slower. Fewer resources will be available to invest in education, family benefits and other programming that benefit younger generations.

This demographics-driven effect has been called a "fiscal squeeze," a "grey tsunami" and even a budgetary "glacier." Irrespective of the nomenclature, there ought to be much greater political focus on our long-term fiscal position in order to protect our fiscal capacity to respond to a future recession and to adjust to the coming budgetary pressures from the aging of Canadians.

A better budget process

This brings us to another observation about the political overemphasis on overall budget figures rather than the underlying revenue and spending choices. It's not enough merely to focus on a balanced budget as an

All forms of taxation impose economic costs. Public spending should produce benefits that, at the minimum, outweigh the cost of each additional dollar collected by the government. But it requires a better framework to judge when and how governments should intervene. The process too often lacks a clear understanding of what constitutes a market failure or the magnitude of an externality. The bias is always in favour of more spending.

We have been involved in several federal budgets. We can attest that an evidence-based approach is too rarely applied to new spending in the budget process. And it's almost never used to evaluate current spending. The problem is that more than \$300 billion in federal program spending doesn't face enough scrutiny about its purpose or efficacy.

There's a need to drill down into this annual spending to better understand whether it's justified and achieving results. The budget process shouldn't start by assuming that each and every expenditure should be preserved or should continue at the same level and that the only decisions involve where and how to spend more. One way to bring about major reform would be to adopt some form of "zero-based budgeting," by which all existing spending is questioned and subjected to a regularized, rolling review by the cabinet, Parliament or both.

Of the \$304 billion in federal program

Renewable energy remains a minor source of energy

If Canada plunges whole-heartedly for renewables, we will suffer a loss of competitiveness that reduces our economic growth.



four percent in Canada excluding hydro).

This is why the International Energy Agency forecasts oil demand will grow to over 100 million barrels a day by 2040, followed by natural gas and coal. Transitioning from fossil fuels will be long and laborious with no guarantee that renewable energy ever displaces them as the primary energy source.

It is no accident that jurisdictions investing the most in renewable energy... have the highest electricity prices.

High cost is a major drawback for wind and solar power. It is misleading to claim solar and wind power costs the same or less as other energy sources since all that matters is the overall cost of energy.

Focusing on the cost of generating one more kilowatt hour of solar or wind power ignores their overall impact on electricity prices. It is no accident that jurisdictions investing the most in renewable energy, such as Denmark, Germany, and Ontario, have the highest electricity prices. The intermittent nature of wind and sun and the prohibitive cost of storing electricity means renewables need to be backed up by thermal or nuclear power sources, which have high capital costs that must be accounted for in the cost of renewables.

Electricity prices in Europe are nearly twice as high as in North America. Europe increased its reliance on renewables while shunning the fracking technology that unleashed a torrent of oil and natural gas in North America. Developing cheap energy sources helped raise economic growth in North America consistently above Europe over the past decade.

At the same time, North America's emissions fell as natural gas displaced coal-powered plants while Europe's emissions stayed high because the growth of renewable energy was offset by Germany's closing nuclear plants and shifting to more coal.

Since renewable energy is costly for the overall energy grid, supporters use pastoral appeals that wholesomely describe solar and wind power sources as *farms* while thermal and nuclear energy sources are denigrated as industrial *plants*. This reflects a hostility towards modernity despite its obvious benefits for our lifespans and living standards. Solar and wind also appeals to the rising anti-globalization sentiment of our time; they are usually sourced nearby and certainly are not transported overseas like oil and gas.

However, this very portability of oil and gas is one of their advantages that allow an immense amount of energy to be carried in automobile gas tanks or aeroplanes.

Hydro is the most successful renewable energy source but is regarded ambivalently by environmentalists. Some tout the green credentials of large-scale dams since governments and the Intergovernmental Panel on Climate Change classify them as

Philip Cross

Abundant energy is the beating heart of our economy and society, driving the ongoing search for new energy sources. At one time, nuclear energy and then briefly fusion promised unlimited power at little economic or environmental cost.

Since the 1970s, renewables from wind and solar power have held out the tantalizing prospect of lower prices without emissions. However, renewable energy remains a minor source of energy (about

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Putting Toronto's bureaucracy on a diet

There's a strong case for reform, but it should start with improving fiscal transparency and putting local bureaucracies on a much-needed diet.



Scott Webb

Sean Speer
William Lundy

Premier Ford's proposed reforms to city governance in Toronto has produced political waves to say the least. Accusations, insinuations, and threats of secession have followed – culminating in the court's recent ruling against the law cutting the city council in half, and the premier's promise to use the notwithstanding clause in response.

The over-the-top reaction from critics of the premier has precluded a more dispassionate debate about the perceived problems of city governance, the efficacy of the proposed solutions, and what real issues are being neglected.

The case for reducing the size of city council mostly rests on the view that the system is paralyzed by grandstanding and gridlock. Truncating the number of

Speechifying has at times come to supersede governing for some councillors.

councillors is to “dramatically improve the decision-making process” according to the premier.

He's not the only one to raise legitimate concerns about the functioning of city council. Speechifying has at times come to supersede governing for some councillors. Unproductive delays often stand in the way of meaningful progress. The mayor can seem powerless in advancing his or her agenda.

It's no surprise therefore that Mayor John Tory has described parts of the system

as “badly broken.” Or that a non-partisan task force at the University of Toronto called for sweeping procedural changes. The case for reform seems to be broadly accepted.

But it doesn't necessarily follow that reducing the number of elected officials will improve city governance. Especially since one inadvertent consequence may be to grant greater discretion and power to unelected bureaucrats. Less elected oversight can be a boon to the worst planning impulses of an unaccountable bureaucracy. This is reflected in a considerable body of research and analysis on the exercise of democratic control and the relationship between elected and non-elected officials.

A focus on the size of council also risks neglecting the real problem of bloated city and regional bureaucracies. Here local and regional officials would be prudent to adopt the Premier's focus on finding efficiencies and reducing spending. It shouldn't be too difficult.

Total employment in local, municipal and regional government in the Greater Toronto Area has increased by nearly 20 percent over the past five years – almost double the growth of all other industries.

The same goes for wages: median wages for local government employees have grown by nearly two-thirds over the past 15 years – compared to 37 percent for all other industries.

And the City of Toronto's own spending on salaries and benefits has outstripped population growth, inflation, and other typical benchmarks in recent years.

Large city governments aren't just costly either. They can slow development and undermine opportunity with burdensome

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Paying able-bodied people not to work isn't an act of compassion

Getting real people into real jobs is the measure on which the Ford government should be judged.

Brian Lee Crowley

Sean Speer

The Ford government's cancellation of Ontario's basic income (BI) pilot project has generated considerable media and political attention. Editorial pages and social media have been marked by lamentations about "evidence-based policy" and accusations about the government's supposed lack of compassion.

Both claims are unjustified. Not only was the pilot itself flawed, the basic idea of generous, unconditional and universal cash transfer wrongly sees joblessness as merely a material problem. The government is thus correct to scrap the initiative and instead focus on reforming the province's income-support system to better enable and support paid work.

It's worth unpacking both critiques – the government's purported rejection of evidence and lack of compassion – to understand their inherent weaknesses and the case for welfare reform with a pro-work bias.

Start with the claims about the role for evidence. BI's proponents' own argument that there's no "perfect study" is hardly a ringing endorsement, and obvious problems with this "experiment's" design and implementation seriously erode its usefulness as a "test of concept."

Even though a basic income is to replace the existing panoply of income-support programs and social benefits, participants in the pilot continued to be eligible for the Ontario Drug Benefit, geared-to-income housing, child-care subsidies, and so on. The layering of programming is contrary to most conceptions of a basic income program and

would necessarily skew the results. Testing whether recipients like more generous welfare benefits is different than understanding the costs and benefits of shifting to a single, unconditional cash transfer.

There were also challenges with identifying eligible participants and simulating realistic conditions. Randomized mailouts frequently went to people who were ineligible. A 40-page application form became an obstacle for some prospective participants. And that benefits increased without a corresponding rise in taxes in the affected communities means the experiment failed to reflect the true costs associated with fully implementing a universal BI estimated at \$17 billion by the province.

the government's "narrow-mindedness" and lack of compassion.

The idea that those favouring sending no-strings-attached cheques to low-income citizens are somehow more compassionate than those who want to incorporate them into mainstream economic life is simply wrong. Paying able-bodied people not to work isn't an act of compassion. It's an act of surrender. It's about managing a liability rather than seeing people as assets to be developed, as US economist Arthur Brooks has put it.

Paid work doesn't just provide significant economic and social benefits – including lower incidences of poverty, greater financial security, better health outcomes, and so on.

The basic idea of generous, unconditional and universal cash transfer wrongly sees joblessness as merely a material problem.

The idea that the rest of the world was waiting with bated breath for the results of this experiment is also rather fanciful. What some people elsewhere were really hoping for was that this experiment would return a more BI-favourable answer than the other experiments that have been tried, most recently in Finland. The fact is that no government that has experimented with BI has decided to pursue it. That, too, is evidence.

But the critics' overstated claims about the purported utility of the pilot's evidence is small beer compared to the hyperbole about

It also contributes to improved personal well-being because of the socialization, personal empowerment, and the sense of dignity that comes with work and caring for oneself and his or her family. An unconditional cheque from the government is no substitute for feeling needed.

This is why the government is right to put paid work at the centre of its opportunity agenda. What must such an agenda entail? We have limited space here but would highlight two key components.

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It's time to kill Canada's sacred cow: supply management

Canadian interests at home and abroad are damaged by maintaining our antiquated and illogical system for controlling the prices of milk, cheese and eggs.

Brett Byers-Lane

With the confrontational and often boorish nature of President Trump, it is no wonder Canadians are cheesed about how our supposed greatest friend and ally has been treating us. However, even the erratic and unpredictable US President gets it right sometimes. And he has a point about the supply management system that some Canadians seem hell-bent on defending no matter the cost.

Over and over, successive Canadian governments have sacrificed other important trade objectives to maintain our inefficient system of protectionism for the

dairy and poultry sectors and in so doing appease the dairy and poultry lobby and a small minority of voters. Now, the true cost is being felt as Trump has increasingly singled out supply management as a *casus belli* for his trade war with Canada.

While the American response is rather disproportionate given the actual size of the Canadian supply management system, Trump's critique of Canada is nonetheless sound. Our system for managing the production, supply, price, and market access for dairy and poultry products is so absurd, it has given Trump the political cover (even if it is merely a convenient foil) to levy massive tariffs on Canada.

What is supply management? As Macdonald-Laurier Institute scholars explained in a 2012 collection of essays on the subject, supply management is a combination of rigid quotas and high tariffs that limit market competition from domestic and foreign producers in the dairy and poultry sectors. These government-imposed restrictions drive up the domestic prices for dairy and chicken products for consumers and artificially raise the incomes of a small number of producers.

And it is important to note that Trump is hardly the first global leader to raise concerns about supply management.

During the Trans-Pacific Partnership (TPP) negotiations, Japan, New Zealand, Australia, and others all had serious reservations about Canada's protectionist limitations on dairy. The Canada-EU Comprehensive and Economic Trade Agreement (CETA) negotiations dragged on needlessly, and the Canadian government needed to make other sacrifices to defend supply management from the level of reasonable competition that virtually every other industry has.

The true cost is being felt as Trump has increasingly singled out supply management as a casus belli for his trade war with Canada.

This is an important point: a trade negotiation involves give and take on both sides of the table. So when the Canadian government insists on maintaining supply management, it necessarily involves diminishing our ability to demand certain concessions from our trading partner or forces us to give up more than we otherwise would in other sectors. Put differently: protecting supply management involves considerable opportunity costs.

It must be just baffling and infuriating to our allies that Canada still fights tooth and nail to defend such a broken system when other jurisdictions that have gotten rid of similar quota systems were rewarded with sharp drops in the cost of dairy products. On the global stage, Canada remains an outlier that is consistently working against its own interests to protect an industry that simply does not need protection.

Why do I say that? Is it not true that, without the protection of quotas and tariffs, some dairy and poultry farmers would face serious downsides? Yes, there would be some disruption in the industry.

But the notion that Canadian dairy

farmers could not survive without supply management, and adapt to the challenge of foreign competition, is deeply patronizing and without factual merit. For instance, we have award-winning cheeses produced in Canada that can compete on the world stage. Countries such as Australia and New Zealand got rid of their similar supply management systems, and their industries are not only surviving, but thriving. If anything, supply management is an

impediment on the potential for the dairy industry, not some sort of survival necessity.

Supply management apologists may argue that the system helps defend the family farm, a cherished symbol of a fading time. But, according to Statistics Canada, there has been a noticeable trend towards consolidation of farm ownership in supply-managed sectors. For example, the number of farms reporting dairy cows decreased by 13.4 percent between 2011 and 2016 while the number of dairy cows fell by only 2.4 percent. For context, pig farmers (who are not under a supply managed system) experienced the opposite trend, with the number of pig farms increasing faster than the overall number of pigs during the same time.

The quota system makes it far more difficult for new farmers to enter the industry and protects the cadre of farmers who already own cattle. One way to think of it is this: the system works well if you are inside the tent of protectionism but serves those on the outside looking into the tent very poorly. Rather than ensuring quality goods and feel-good farming practices, supply management

props up an uncompetitive model to the benefit of those who own quota, and to the detriment of everyone else.

Perhaps most importantly and tragically, supply management disproportionately hurts the poorest among us. A 2016 study by the Montreal Economic Institute found that as many as 190,000 Canadians are pushed below the poverty line due to supply management. Higher prices strain incomes for poorer Canadians and limit access to nutritious foods.

Polls indicate that Canadians are very much open to putting supply management – whether in whole or in part – on the table in trade negotiations, particularly if it would lead to a better overall deal for Canada. As our trade situation in North America continues to deteriorate, scrapping supply management is a useful bargaining chip against the Americans and a smart domestic move for Canada. It would effectively call Donald Trump's bluff.

Moreover, it also means that we can renegotiate market access with our other trading partners, potentially offsetting the negative impacts of American protectionism while also getting better trade arrangements elsewhere.

Of course, scrapping supply management is no magic bullet as there are always irritants to free trade. And Trump may just find another excuse to put the screws to Canada. Even then, it would be the right decision for Canada regardless of our trade relationship with the US.

Ultimately, we should stop seeing the present tariff situation as entirely surprising or completely unfair. We have long been paying the price to maintain our antiquated and ridiculous system of dairy and poultry protectionism, and the latest challenge is just another reason why the system needs to be radically overhauled at the very least. ✪

Brett Byers-Lane is the Communications and Digital Media Manager at MLI.

A US-Canada trade war rages on and we are not blameless

The Trudeau government has failed to adjust to Washington's evolving political landscape and Canada's provocations have not helped matters.

Brian Lee Crowley

Sean Speer

A great deal of economic patriotism has come to the fore amid the theatrics of a trade war between Canada and the United States. After US President Donald Trump announced tariffs on Canadian steel and aluminum, Trudeau promised to retaliate with \$16.6-billion worth of retaliatory tariffs on US products, prompting Canadians to largely celebrate the tough talk. Some have even championed buy-Canadian campaigns and cancelled plans to travel south.

But the coming into force of the Trudeau government's tariffs against the US marked a major setback in the NAFTA negotiations in particular and the Canada-US economic relationship more generally. A full-blown trade war seems increasingly possible. Tariffs will beget more tariffs. The costs will be disproportionately borne by Canadian businesses and workers.

Was this outcome inevitable when negotiations started *over one year ago*? Maybe. Trump's mercurial leadership and erratic deal-making style was always going to be a complicating factor. Any Canadian government would have invariably encountered challenges negotiating with this administration.

But this doesn't mean that Ottawa is off the hook. It's too simplistic to merely blame the US administration for the current tensions, and the asymmetry of negotiating power in our relationship leaves Canada far less room for mistakes. A key measure of any



Prime Minister Justin Trudeau meets with US President Donald Trump at the G7 summit in Charlevoix, QC earlier this year. (photo: Adam Scotti (PMO)/pm.gc.ca)

Canadian government is how it manages the Canada-US relationship, irrespective of whether we agree with or even like the occupant of the White House. In fact, Trudeau said as much in a high-profile speech on Canada-US relations prior to the 2015 election. "Prime Ministers and governments are commonly and rightly judged by how they foster that relationship for the greater common good," he said at the time.

So how does this government measure up to this standard? A trade war certainly isn't a good sign.

The truth is that Ottawa has made a series of miscalculations and errors that have provoked the Trump administra-

tion and exacerbated bilateral tensions while doing nothing to advance Canada's interests. These actions and choices have only served to make a difficult situation worse. The NAFTA negotiations – and in turn, Canada's economy – have been put at risk in the process.

Take the NAFTA renegotiations, for instance. We didn't want these negotiations, since we were content with the status quo. Nevertheless, our negotiating position led with calls to make the deal "more progressive" and to insert a raft of ideological causes completely at odds with Trump's priorities. This was both a distraction and needlessly provocative.

Ditto for the agenda the prime minister struck for the G7 summit in Charlevoix, Que., which focused on issues like gender and the environment, knowing this would annoy and isolate the president, while leaving off the table other challenging issues of big interest to Washington. The spat about the post-summit press conference was mostly a coded exchange about these conflicting priorities.

warned about the grave risks the company poses to national security.

On national defence, inextricably linked in President Trump's mind with international trade issues, we've also misplayed our hand instead of searching for ways to partner with the Americans. The prime minister visited Canada's troops in Latvia in advance of the NATO Summit to signal Canada's commitment

participation in the American-led ballistic missile defence system, even though such participation would allow us to offer a concrete gesture in favour of improving US national and continental defence at a relatively modest cost.

Let's not overlook the occasional needless rhetorical provocation, either. The most significant was Global Affairs minister Chrystia Freeland's recent Washington speech, a self-evident shot at the president that was understood by the White House as such. Not mentioning Trump by name did nothing to lessen the blow.

No, Trudeau wouldn't have voted for Donald Trump – but he is president of the United States all the same. That placed the onus squarely on Ottawa to rethink its priorities originally conceived for continuity between the Obama administration and an anticipated Clinton one. Indeed, in his 2015 speech Mr. Trudeau criticized his predecessor for failing, as he put it, to “focus relentlessly, for the long-term, on making progress in those areas” where Canada-US interests align.

Yet, as we recently wrote, Ottawa has signally failed to understand the extent to which Trump is breaking with conventional thinking and charting a different course on climate change, energy development, foreign policy, and trade.

This failure to recognize fully Washington's evolving political landscape and to adjust accordingly is a costly and regrettable mistake. Canadians may not like Trump, but that's irrelevant. We have to work with him for the next two years – if not possibly six.

Fortunately, we can fix it. One of Trudeau's key conclusions in his 2015 speech on improving the Canada-US relationship was a “willingness to admit mistakes.” It's good advice. He should take it. ✪

Brian Lee Crowley is the Managing Director and Sean Speer is a Munk Senior Fellow at MLI. This article first appeared in Maclean's.

Americans disinvented the Chinese from the RIMPAC naval exercises.



A Chilean Navy frigate (L) and Indian Navy stealth multi-role frigate (R) perform a replenishment-at-sea with RCN supply ship *MV Asterix* (centre) during RIMPAC, July 2018

US Navy Mass Communication Specialist 1st Class Arthur Gwain L. Marquez | combatcamera. forces.gc.ca

Then there's China. Much of Trump's international trade agenda is driven by anger about Chinese misbehaviour in trade and national security issues. Yet not only has Ottawa energetically pursued free trade with China, it's also been reluctant to take seriously the national security threats that country increasingly represents to the west. Ottawa only blocked the recent acquisition of a large Canadian construction firm after it was pressured into a full national security review, and it has allowed other such transactions despite clear national security implications that concern Washington policy-makers. And Canada continues to be quite sanguine about Chinese firm Huawei's deep involvement in the development of our wireless infrastructure at a time when virtually every US intelligence agency has

and reliability as an ally. But this welcome show of support glosses over the fact that our reluctant leadership of the mission came only after strong American pressure, and our military contingent remains quite small compared to other countries with similar responsibilities.

Washington couldn't care less about peacekeeping missions to Africa, but it would welcome Canada undertaking real freedom of navigation missions to push back against Chinese efforts to claim and militarize the South China Sea. Given that the Americans disinvented the Chinese from the RIMPAC naval exercises this spring, this was an ill-advised moment for a Canadian warship to engage in military exercises alongside the Chinese navy. The prime minister has also set his face against

US tariff battle has revived Chinese free traders

The Sino-American trade war is a conflict between the Chinese state monopoly and all those who oppose that monopoly, whether in China or America.

Duanjie Chen

The heated trade war between the US and China has been the daily headline since early this year. Criticisms, debates, worries and anger, not least caused by President Trump's unpredictability, are all understandable. But those in Canada who enjoyed jumping to the oversimplified conclusion that China has plenty of tools to deal with the Americans, and Trump can't therefore get everything he wants, might soon regret their own ignorance on the basic principles of free trade.

The Chinese side was full of drama too: President Xi Jinping, not known for any cultural refinement, was heard borrowing from the Bible to tease all westerners on June 25: "In the West you have a notion that if somebody hits you on the left cheek, you turn the other cheek. In our culture we punch back." That oral punch certainly incited his netizens to cry "tooth for a tooth."

But three days later, China's government published its 2018 Special Management Measures for the Access of Foreign Investment – a list of industries that either prohibit or heavily restrict foreign entry and investment. Notably, this list was significantly shortened. The official media hailed it as the major initiative (!) for opening up China's market, without mentioning that this opening to investment is what Trump had demanded in the first place.

Regardless of the end result of this Sino-American trade war, I share the view



“China’s retaliation is precisely to guard that monopoly for unfair trade.”

of many clear-minded Chinese scholars on its essence. A recent essay (July 11, 2018) on the *Financial Times* (Chinese edition), by the economics professor Sheng Hong, stands out: “Whose Trade War, and for What?”

According to Mr. Sheng, free trade has to be a fair trade – one defined by three basic principles: firm protection of property rights, including intellectual property (IP) rights; fair competition without government interference; and free entry to all types of markets ranging from those

for commodities and consumer goods to financial products and Internet access. Given that China has persistently violated all these free-trade principles to protect China's state monopoly and its associated interest groups, the Sino-America trade war is not a conflict between China and the US per se. Instead, it's a war between the Chinese state monopoly and all those who oppose that monopoly, whether in China or America. In Mr. Sheng's view, the target of Trump's tariffs is China's state monopoly that broke the principles of free trade, and China's retaliation is precisely to guard that monopoly for unfair trade.

To substantiate his argument, Mr. Sheng provided the following examples:

First, given the well-known fact that China has grown its state-owned-enterprises (SOEs) by suppressing both domestic non-SOE and foreign entities, Mr. Sheng is focused on China's disregard of IP rights.

On the one hand, the government uses the Great Firewall to block the free flow of data and information across the Internet, and hence suffocated private innovation, a key to generating intellectual property. On the other hand, the government's heavy subsidies for selective industries encourage rent-seeking behaviour rather than innovation. As a result, SOEs and those with government ties are not innovators but only state procurers

and 2013, the average annual monopoly rent or profit collected by state-owned telecom companies was about \$3.4 billion; for 2013 alone, Chinese state banks ripped off over \$200 billion from their customers through artificially low deposit interest rates. By disallowing free entry to these industries, China is first protecting the state monopoly and hurting its domestic consumers and non-SOE companies, and

low-human-right advantage" as early as 2006 in his speech at an international symposium. As he explained, "besides the traditional competitiveness associated with low wage and low welfare," China's unmatched global competitiveness is rooted in "low human rights" that provide a foundation for the government to "artificially suppress the prices of labour, land, financial funding and non-renewable resources" available



This China-American trade war is about China breaking free-trade rules – both domestically and internationally.

of IP; they have no interest in protecting intellectual property rights.

Second, on fair trade and competition: the Chinese government has persistently subsidized its SOEs – by providing them with free land, cheap loans and resource rights to ensure their collective monopoly. Such unfair subsidies, totalling \$2 trillion over the period of 2003-2013, by supporting inefficient SOEs and hence suppressing more efficient private enterprises, distort resource allocation and cause unfair wealth transfer within the domestic market, which in turn spills over to the global market in the manner of unfair price competition.

I will also add that this is how China's unfair trade has damaged and even wiped out some industries in western countries, ranging from high-speed rail and steel to furniture and solar panel manufacturing industries.

Third, with regard to free entry to its domestic market, China has failed to fulfill its promise to the World Trade Organization (WTO) to completely open up its market to foreign investment. For example, China has so far restricted foreign entry to its credit card, telecommunications and film industries, despite the government's open pledge to the WTO. Again, between 2003

and 2013, the average annual monopoly rent or profit collected by state-owned telecom companies was about \$3.4 billion; for 2013 alone, Chinese state banks ripped off over \$200 billion from their customers through artificially low deposit interest rates. By disallowing free entry to these industries, China is first protecting the state monopoly and hurting its domestic consumers and non-SOE companies, and

then using its centralized monetary power to "go global" to grab foreign market shares. In Mr. Sheng's words, as long as the Chinese government is:

"unyielding in its industrial subsidies, prohibition of internet free flow, restriction on market entry, and control of intellectual properties, it is protecting its state monopoly and the intertwined interest groups, violating fair-competition principle, and contradicting its own pledge on 'letting the market play the decisive role in allocating resources.'"

Therefore, the root of this trade war is China's protection of its state monopoly. Importantly, this comes at a cost to both Chinese citizens, who are exploited by the state pricing power, and the non-state-associated business entities that are deprived of their potential profitability through fair competition. In other words, the essence of this China-American trade war is about China breaking free-trade rules – both domestically and internationally.

Mr. Sheng's view is broadly shared among reputable Chinese scholars from various political camps, who are against China's global expansion at the expense of Chinese citizens. Professor Qin Hui at Qinhua University coined the term "the

to SOEs. For his far-reaching finding and prediction on China's future and that of international order, Prof. Qin, like other independent scholars in China including the previously quoted Prof. Sheng, has been ferociously attacked by the Chinese Community Party-directed online mobs.

If Professors Qin and Sheng appeared to be stepping out of the party line in China, we may listen to another professor Sun Xiliang, who is viewed as being absolutely "politically correct" and is acclaimed online by many as the "Chinese conscience." In his web post on July 11, Mr. Sun openly challenges those who have boldly declared that the Chinese people could bear the cost of a trade war and hence should fight it to the end. By posting the question "who should bear the cost of the trade war?" he pointed out that, over the past several decades, China's "commercial capitalists" exported their superior products at the cheapest price to the US but sold the inferior ones to their own people at the most expensive price. They caused some of the worst environmental pollution to make profits domestically and sent the money to America. Mr. Sun therefore questioned:

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Loosening Ottawa's rigid "One-China" policy with Taiwan

Canada should expand its ties and cooperate more closely with Taiwan, especially on security issues.

Eric Lerhe

Taiwan president Tsai Ing-wen's visit to Los Angeles in August represents the first time a Taiwanese leader has spoken publicly in the United States in several years. And her tone was strident, as she boldly declared, "no one can obliterate Taiwan's existence."

Her visit came at a time of growing Chinese efforts to curb the island's diplomatic presence abroad, not to mention provocative military exercises, including China deploying missile-armed bombers for "Island Encirclement Patrols" around Taiwan.

Fortunately for Tsai, relations between Taipei and Washington have also grown closer – one of the few consistent foreign policy trends to arise under the Trump administration.

Last year, Trump signed the 2018 *National Defense Authorization Act* allowing for US naval port visits to Taiwan. This was followed earlier this year with the *Taiwan Travel Act*, which despite the Chinese Embassy rashly warning Congress not to pass it, encouraged even higher-level military and government official visits to Taiwan.

And, just before Tsai's visit, the US 2019 *National Defense Authorization Act* was also approved, which included provisions to strengthen Taiwan's armed forces and expand military-to-military engagement and joint training.

Given this trend of improving Taiwan-US ties, it seems prudent to ask what Canada has been doing when it comes to reaching out to Taiwan. And the sad truth of the



Canada has largely continued its decades-long caution on all aspects of its very limited relationship with Taiwan.

matter is...not much. In fact, Canada has largely continued its decades-long caution on all aspects of its very limited relationship with Taiwan, due to an especially strict interpretation of its own "one-China" policy – one that Liberals and Conservatives alike have been quick to follow.

When Taiwan suffered a major earthquake in 2018, the Canadian government's condolences were issued by the Canadian Trade Office in Taipei via a Facebook entry. And Canada's response to

Beijing's demands on Air Canada, which was forced to amend its website to now incorrectly refer to "Taipei, Taiwan, CN," was to dismiss the issue as a commercial matter.

Some of the rules regarding Taiwan may have even been tightened. Rather than no ministerial visits to Taiwan, today's interpretation is frequently that no Canadian official at all should venture there. Even the

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It's time to leverage Canada's energy advantage into a geopolitical one

Pipeline projects and energy developments will allow Canada to flex more influence on the world stage – and weaken the grip of bad international actors.

Shuvaloy Majumdar

For many, Canada's role in geopolitics and world affairs is often centred on what we can do with our intellectual and cultural talents. We see ourselves as a country best suited to act as a teacher, a mediator, or a good example. We cling to a Canadian diplomacy from an international order of a different age.

But this excessive focus on Canada's social capital can distract from the fact that we actually are internationally distinguished on one important front: energy.

Canada is a world leader in its supply and mastery of virtually every energy resource and technology known to man – and with this enviable access to the assets that fuel 21st-century life increasingly reflecting real political power on the world stage, Canada has the ability to position itself as a true global leader. The sheer size of Canada's energy interests ensures virtually no corner of the globe is beyond our influence, and should we choose to seize it, we have a unique opportunity to both supply our allies with the energy they need to serve a shared goal of global prosperity, while also lessening the energy influence of the world's bad actors.

A survey of the world's geopolitical evolutions, tensions and conflicts shows that the globe's economic centre of gravity has shifted steadily eastward as once-emerging and now surging markets in the Indo-Pacific region enjoy a phase of steady growth. So as economies like India's require more and more energy, and rely more and more on supply routes from undesirable sources, the



Close relationships with Russia and Venezuela have kept China awash in petroleum.

stakes – and the upside – is high for Canada.

Japan's high-profile troubles with nuclear power, for instance, have fostered growing interest in renewables, but also coal and natural gas, both of which are produced by British Columbia. South Korea, meanwhile, is moving in the opposite direction, embracing nuclear at the expense of non-renewables, domestically and internationally. Prospects for Saskatchewan's stable, long-term nuclear fuel supply should be part of this strategy.

China's energy imports, meanwhile,

have mirrored larger trends in its decisively illiberal foreign policy. Close relationships with Russia and Venezuela have kept China awash in petroleum, while Beijing plays defence for the atrocities of Putin and Maduro regimes in international forums. While remaining sensitive to the problematic aspects of President Xi's own regime, there is reason to believe more Canadian oil to China could weaken his interest in propping up "gas station" client states.

In the Middle East, continued bad actions by the state of Qatar – including an

alleged US \$1 billion ransom paid to Iraqi and Iranian terrorists – have resulted in appropriate calls for the country’s diplomatic and economic isolation. This provides ample opportunity for any nation willing to offer itself as an alternative to Qatari oil and gas, which is currently exported everywhere from Morocco to Japan.

Though the Middle East is synonymous with oil, it would be a mistake to assume this status quo is uncontroversial in the region. Awareness of the finite nature of petroleum reserves has fostered intense interest in energy diversification. Canada already has nuclear cooperation agreements with Jordan and the United Arab Emirates; these agreements should be animated with long-term Canadian supply.

It is perhaps in Europe, however, where the geopolitics of energy are most fraught, and thus most open to Canadian intervention. Already uncomfortably dependent on Russian oil, western Europe is on track to face a near-monopoly on Russian natural gas as well. As supplies from the Netherlands, Scotland, and Norway decline amid domestic environmental pressures, Moscow has been eager to fill the growing gap.

To make the situation even more troubling, recent years have seen the Kremlin forge a burgeoning energy alliance with the revanchist regime in Ankara. In May, Turkish and Russian governments inked a deal to authorize the construction of a new Gazprom pipeline entering Europe through the Black Sea, rather than Ukraine, thus allowing Moscow to further undermine its long-time geopolitical foe.

The leadership Canada can demonstrate in offsetting these negative trends is clear: we should fearlessly pursue our economic interests by making Canadian energy resources and technologies accessible to those who want them, offsetting allied dependence on worse alternatives.

But at precisely the moment when the world needs Canadian energy leadership,

Canadian courts have overruled the will of the parliament, galvanized by foreign interests against energy production, and casting a shadow over the essential nation building our country must pursue. The Federal Court of Appeal’s (FCA) decision to quash the Kinder Morgan Pipeline existentially imperils Canada’s global energy leadership. To be clear, the courts did not create the opposition of eco-warriors or the Indigenous communities that are implacably opposed to development, nor did they outlaw fracking in Quebec or points east, nor indulge the false prophecies that have crept into mainstream opinion of Canadian energy as a corporate evil to be mitigated. That’s on the government.

that the \$4.5 billion pipeline the government now owns has met all requirements to be built. The legislation could encompass clarity on marine security, and provide parliamentary supremacy for a national mandate establishing pan-continental energy corridors across Canada to advance its global economic interests. The ruling implies that remedial consultations with Indigenous peoples can be pursued with speed.

We must open liquified natural gas (LNG) export terminals on Canada’s east coast, allowing it to serve as a gateway point of Canadian natural gas to Europe. Canada presently has no LNG export terminals on its east coast, though several proposals are working their way through the approval



We must limit the damage of foreign interests who have worked to disrupt Canadian energy production.

With growing uncertainty about whether this country has the capacity to get its energy to global markets, Canada has to do better. It is insufficient to merely repudiate the anti-energy agenda. A comprehensive Canadian energy action plan is needed to advance the essential resources that support the Canadian social safety net, and that can deliver Canadian leadership to a world that demands it.

We must liberate Alberta’s oil sands from their landlocked status to dramatically increase Canadian oil exports and, at the same time, Canadian power on the international stage. This means completing pipelines like Trans Mountain and Energy East, which are capable of dramatically increasing Canadian oil exports by transporting renewed quantities to our Atlantic and Pacific ports. In response to the FCA decision on Trans Mountain, the Canadian parliament should insist through legislation

process, with Nova Scotia’s Bear Head and Pieridae facilities the furthest along. As the gateway point of Canadian natural gas to Europe, these projects must be seen to swift completion. Any prohibitions on fracking in the region must be similarly lifted, which can be possible with the potential emergence of new provincial legislatures in Quebec and New Brunswick.

We must limit the damage of foreign interests who have worked to disrupt Canadian energy production. Manipulating grievances, fostering a culture of retaliation rather than reconciliation, and libellous commentary about Canadian energy have all manifested in a campaign to subvert core Canadian interests. The government can mitigate these foreign agencies by repealing the charitable status of bogus charities, work with industry to litigate against libellous

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Trump's behaviour at Helsinki will only embolden Putin

The Trump administration's disconnect between rhetoric and policy weakens deterrence against Russia and increases the threat of miscalculation.

David McDonough

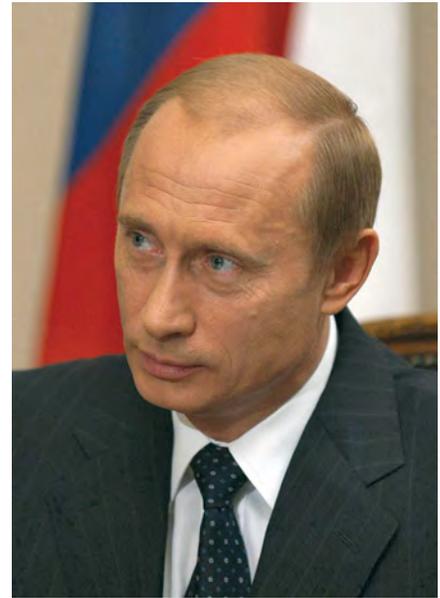
President Donald Trump's summit fiasco with Vladimir Putin in Helsinki has been roundly (and rightly) criticized. The spectacle of a US president being so weak and subservient to a Russian leader, and so willing to blame America for the problems in US-Russia relations, has even proven to be too much for some of his Republican enablers.

You do not have to fully agree with former CIA director John Brennan that this summit was "nothing short of treasonous" to consider Trump's performance an unprecedented act of appeasement by a US president to a hostile power, likely made even worse by the implausibility of his bizarre excuses and the degree to which he then quickly back-tracked from them.

Some prominent observers, even while expressing harsh criticism for the President's Helsinki performance, take some measure of comfort that Trump's soft-on-Russia rhetoric doesn't match recent American military economic and foreign policy under Trump, which continues to put Putin at a growing disadvantage.

Admittedly, there is some truth to this matter. In the last two years, the United States has significantly increased its defence spending, accelerated its support of the European Deterrence Initiative and expanded its participation in large NATO military exercises and other assurance measures.

Even critics of Trump's behaviour acknowledged that the NATO summit in Brussels did result in substantive agreement – from reiteration of Article Five in the *Brussels*



Gage Skidmore (commons.wikimedia.org); kremlin.ru

Declaration to the Readiness Initiative to establish large Allied units capable of responding in 30 days or less, which must be comforting for the Baltic members isolated on the other side of the Suwalki Gap.

More ardent Trump supporters may try to convince us that this is some kind of good cop/bad cop routine, in which Trump might rhetorically be soft on Russia to provide cover for his administration's tougher policies. They may suggest there's more than meets the eye when it comes to the Trump administration's capacity for a coherent Russia strategy.

There are two problems with such views.

First, it would be a mistake to assume that the policies described above arise directly from Trump.

Keep in mind that the Pentagon is a massive bureaucratic actor with its own interests, preferences, and activities, with a

Defense Secretary given extensive delegated authority to make key military decisions.

To be sure, Trump did choose to delegate even greater authority to the Pentagon over military operations and setting troop levels. His appointed Defense Secretary James Mattis has also emerged as perhaps the most powerful member of his administration, with the ability and willingness to publicly disagree with the president on a range of strategic policy issues, such as the value of alliances, international law, and the role of the State Department. But that's a long way from saying that Trump is directly responsible for such policy continuity when it comes to the defence of Europe.

Indeed, it is telling that when Trump has been directly involved on issues with Russia, he has consistently opted for a much softer approach – as demonstrated by his abrupt rejection of new sanctions on Russia in April 2018, his offer to bring Russia

back into the G7 at Charlevoix, Quebec, or by his performances at the Brussels and Helsinki summits.

It's also difficult to separate such behaviour from his equally acrimonious behaviour towards his key European allies, from his blatant attempts to weaken the European Union to his strident calls to increase defence spending that seem designed to rupture NATO solidarity rather than strengthen it. A good contrast is how Barack Obama was able to both increase the US military presence in Europe and pressure European countries to increase defence spending, a trend that began in 2014 before Trump, all the while reinforcing rather than sabotaging Allied unity.

When Trump has been directly involved on issues with Russia, he has consistently opted for a much softer approach.

With that in mind, it seems the continuity of a more robust US approach to European defence reflects the preference of the Pentagon, with the president so far unable or unwilling to force his view on that actor.

Second, given the worrisome presidential rhetoric and actions emanating from this White House, it may be tempting to be relieved by the underlying policy continuity on European defence. But that would also be unwise – as this disconnect between rhetoric and policy significantly weakens deterrence and increases the possibility of miscalculation.

For example, the US military is clearly attempting to convey a strong message of deterrence against Russia and solidarity with its NATO allies. And, if Russia does unwisely encroach on a NATO member, in the Baltics for example, it will likely face a united Allied front. That is the reason why units from multiple NATO countries

are deployed in the “enhanced Forward Presence” mission in the Baltics and Poland – to help ensure such a united response.

Yet what happens if the risk-prone Russian president looks instead to Trump's appeasing rhetoric and actions at Helsinki, his consistent skepticism of NATO, and unwillingness personally to reiterate NATO's Article Five clause on collective defence, most recently questioning whether the US should defend NATO member Montenegro – a country that, it should be remembered, was the victim of what looks to be a Russian-backed attempted coup to prevent it from joining NATO. Rather than being deterred, Putin could find himself further emboldened to take action in the

Baltics, Eastern Europe, or beyond.

This apparent disconnect not only seriously weakens the Alliance's ability to deter an aggressive Russia but could also result in a serious miscalculation – if Putin encroaches on a NATO member only to find a united military response from the Alliance.

Equally dangerous is the fact that Trump could very well force a change in policy, especially as the trust in his own foreign policy instincts have only grown. One only needs to look at his personal approach to North Korea, which led to Trump abruptly announcing he would cancel joint military exercises with South Korea without even first informing the Pentagon.

The end result with North Korea is certainly telling, with the sanctions regime failing, the China-DPRK relationship blossoming, and Pyongyang now expanding its nuclear facilities. Indeed, the Trump administration now seems to accept that there is no timeline for denuclearization,

an admission that implicitly says disarmament is no longer in the offing. And what did Trump get for rehabilitating North Korea and dismantling his own “maximum pressure” campaign? Apparently very little.

Ultimately, there is little to stop Trump if he decided to do something similar in Eastern Europe – to pull back US military deployments to Europe or withdraw from participation in NATO exercises or operations like the US enhanced Forward Presence in Poland, in return for an equally empty promise from the Kremlin. Russia's admission of making agreements with Trump on international security issues, with still deafening silence about their content from the corridors of power in Washington, is certainly a worrisome sign.

The fact that Trump has not already made such commitments should not make observers sanguine. He simply may not see it as politically feasible to start what could turn into a prolonged political battle with the Pentagon, particularly at a time when he is seen as waging a war against his own intelligence and federal law enforcement agencies. But that could very well change, especially if he decides to replace Mattis as Defense Secretary for someone more pliant and attuned to Trump's own soft, appeasing approach to Russia.

America's current policy continuity vis-à-vis NATO is no reason for American allies to feel secure. There are severe dangers associated with such a disconnect between rhetoric and policy with the Trump administration. Equally important, Trump's own preferences on Russia don't look like they've been fully expressed in government policy yet. The key word is “yet” – as we're not even two years into the first term of this most unusual of administrations. Things may get worse before they get better. ❁

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Canada, NATO and the battle for the “soul” of American foreign policy

Canada needs to work with its allies and partners to support the still influential pro-transatlantic community within the United States.

Joel Sokolsky

Christian Leuprecht

As extraordinarily disruptive as the Trump Presidency may seem, his approach to foreign policy, and the reaction it conjures up, is not entirely unlike earlier periods of controversy and acrimonious debate over America’s role in the world. But it brings to the fore strands of foreign policy that have not been prominent since the domestic debate over America’s entry into World War II was settled. Their resurgence could well herald a significant realignment in US foreign policy, one that has been looming since the end of the Cold War, with momentous implications for allies such as Canada.

In his recent book, *The Soul of America: The Battle for Our Better Angels*, celebrated American historian Jon Meacham reflects on other periods during which Americans battled amongst themselves over the true character of the American soul: the post Civil War reconstruction era, the 1930s Great Depression, the debate over entering World War II, McCarthyism and the civil rights struggles of the 1960s. In each case, Meacham argues, the US has “endured moments of madness and of injustice.” Although the United States has witnessed “periods of public dispiritedness” and vulnerability to “fear, bitterness and strife,” Meacham reminds us that the Republic and its founding values have endured, with Lincoln’s “better angels” of the American nature ultimately prevailing.¹

During the NATO summit in Brussels earlier this summer, a renewed struggle for



the future of American foreign and defence policy was on full display. Caught in middle is Canada and the future of its role and commitment to the Atlantic Alliance.

Since the late 1940s, from the ups and downs of the Cold War right up to Canada’s recent re-commitment to the “enhanced Forward Presence” (eFP) mission in Latvia, Canadian defence policy has been shaped by the US-led multilateral, liberal-democratic Western internationalist security order. This was especially the case in Europe through NATO and in North America through a wide array of bilateral defence and security linkages and

the ‘binational’ North American Aerospace Defence Command (NORAD).

Any suggestion that this order might be coming to an end calls into question Canada’s entire defence posture. Ergo, Canada has a real stake in the current American public discourse on US defence policy.

Before the Brussels summit, President Trump had sent a letter to Prime Minister Trudeau in which he castigated Canada for underspending on defence. US demands for Canada to spend more on defence are

¹ John Meacham, *The Soul of America: The Battle for Our Better Angels* (New York: Random House, 2018), pp. 5, 19.

hardly new: Mr. Trudeau's close friend Barack Obama made the same demand, as had his predecessors. Mr. Trump is probably oblivious to the "fully costed" spending projections in the 2017 Canadian defence policy statement, *Strong, Secure, Engaged*. If he were, it would only add fuel to his ire: Canadian defence spending, as a percentage of Gross Domestic Product (GDP), is projected to rise from the present 1.1 percent to 1.4 percent by 2024/25 – a long way and two federal elections off, and even then still being well below NATO's aspirational target of 2 percent of GDP.

But the Prime Minister stuck to his policy guns, claiming that what counted was not some arbitrary, inconsistently applied measure of the portion of national wealth

but also because they secretly find them unimportant." As he further explained, "The actual production of combat power pales in comparison to the political goal of gluing the United States to Europe no matter what." How much Canada spends on its military will be irrelevant if this glue comes undone, because the very foundation of Canadian defence policy would unravel.

To play down this clear and present danger as a momentary lapse in US reason would be an exercise in historical amnesia. For however tempting it might be to chalk it all up to the crude and unformed idiosyncrasies of a misguided President, the provenance of the Trump approach is well established in certain American foreign

and prolonging the "unipolar moment."

Then came 9/11 and the US-led "Global War on Terror," which deepened and broadened America's global entanglements. President Obama's attempt at reining in this latter expansionism earned him stinging rebuke from the right for retreating from global leadership. Although Trump has declared all things Obama as un-American, ironically these deeply rooted American tendencies toward a less activist global role that surfaced briefly at the end of the Cold War are now at the core of Trump's movement to "make America great again."

In doing so, he is compelling the United States to confront the meaning, purpose and, indeed, the very soul of American

A possible American retreat from this demanding internationalism has been looming.

devoted to defence spending, but capacity, capability and commitments to NATO's collective defence posture. Accordingly, Mr. Trudeau announced a multi-year extension and modest increase of Canada's nearly 500-person commitment to the allied eFP mission in Latvia, which Ottawa leads as the "Framework" Nation. Trudeau also announced a new commitment to lead NATO's training mission in Iraq.

However, such commitments by Canada and other alleged laggards are unlikely to satisfy Mr. Trump. His public scolding, and the unconventional take on NATO it reflects, is not about specific quantitative measures of allied burden sharing, but rather the fundamental US strategic commitment to Europe.

In the past, as MIT's Barry Posen recently observed, "Alliance partners on both sides of the Atlantic" have found "complaints about burden sharing irksome not only because they ring true

policy traditions, especially those that held sway prior to 1945.

Famed historian Walter McDougall points out that the bedrock American foreign policy tradition is not isolationism but unilateralism, avoiding foreign entanglements that did not serve US interests. In the early 20th century, and especially with the advent of the Cold War, America did not so much abandon unilateralism as it came to see its own national interests as requiring US leadership of a liberal international order, as well as entangling bilateral and multilateral security ties, with NATO as its centrepiece.

A possible American retreat from this demanding internationalism has been looming since the end of the Cold War. Initially it was delayed by Democrats who embraced President Bill Clinton's support for globalism through engagement and enlargement of liberal-capitalist democracies, and Republican and neo-conservative aspirations of preserving US primacy

foreign and defence policy in terms of the country's interests, identity and values.

On one side stands the old (Democratic and Republican) foreign policy elite. Their position is captured by Congress's bipartisan pre-summit reaffirmation of support for NATO.

On the other side, confronting "the Swamp" – as Trump likes to call the Washington establishment – are not only the narrow grass-roots nationalists of Trump's base, but also those who argue that American global leadership may have served US interests in the past, but this is no longer necessary to assure American security and prosperity.

Harvard's Graham Allison recently wrote: Trump's rhetoric has exposed the "myth of the liberal order" in its economic and military dimensions. Created and sustained during its Cold War heyday, American leadership was not primarily about creating a new international order

per se, but instead about containing and deterring global Soviet expansionism – a relic long extinct.

“Rather than seek to return to an imagined past in which the United States molded the world in its image,” Allison argues, “Washington should limit its efforts to ensuring sufficient order abroad to allow it to concentrate on reconstructing a viable liberal democracy at home.”

What can Ottawa do? The reality is that foreign governments and public opinion will have little sway over the outcome of this debate. Americans will, as they have always done, resolve these matters amongst themselves.

At the same time, Canada can work with other allies such as Germany, France and the UK, as well as newer NATO members, to support the still influential pro-transatlantic community within the United States, including both Democrats and Republicans in Congress and indeed amongst some senior officials within the Trump administration. The recently-passed US defence budget included major new funding to support American forces and NATO. And it is now known that the President’s senior advisors, led by National

Security Advisor John Bolton, obtained allied consensus on the Brussel Summit communiqué, which included agreement on several key NATO initiatives prior to the contentious July meeting.

Notwithstanding the President’s bluster and questionable behaviour, the hope that America will once again embrace the “better angels” of its foreign policy nature remains. Ottawa has already indicated that Canada will not be assuming a greater financial and material share of the allied burden any time soon. But the Canadian government can, within constrained fiscal limits, fulfill the limited procurement commitments it has made within the promised timeframe. It can also optimize the way it allocates scarce resources in support of NATO’s diverse and essential security initiatives, as it is doing in Latvia and Iraq.

As with Canada’s outsized contributions to Afghanistan, putting troops on ground, in whatever numbers, is noticed in Washington where it counts: at the Pentagon and in Congress. Contrary to what happened too often in the past, Canada must also hold firm to commitments to capabilities, capacities, and timelines on

new equipment it has already promised to procure.

Precisely because of its own profound stake in and commitment to the “old order” of American global security leadership, with NATO at its centre, Canada unwittingly finds itself caught up the debate that Americans are waging over the “soul” of US foreign and defence policy. If that struggle culminates in America disengaging from the venerable Atlantic Alliance, then Canadians, along with other US allies old and new, will be left picking up the pieces.

For once, Canadians will be compelled to debate the meaning of their own foreign and defence policy. That would engender a struggle for Canada’s own foreign policy soul such as the country has not had to endure in three quarters of the century. ❁

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Trans Mountain ruling (Coates)

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announcement of a moratorium on coastal oil tanker traffic. What happens if these dissatisfied Indigenous groups used this moment of federal vulnerability to launch legal actions against Ottawa?

Clearly, the federal government has a consultation problem.

The courts say it did not consult properly with the coast First Nations and environmentalists in British Columbia. It is not hard to imagine what the courts would say about major resource decisions – in this case to stop potential development activity – that were made with no consultation at

all. The decision not to permit development is every bit as much a resource decision as the determination to proceed with a project.

So, for those who feel the Trans Mountain ruling means the end of resource development in Canada, everyone needs to take a big, deep breath.

Other projects proceeding

Hundreds of resource projects are proceeding today with Indigenous support and engagement. Many Indigenous groups favour careful and well-planned oil and gas and pipeline development. Companies and governments have worked successfully with many Indigenous communities to negotiate agreements.

The country has encountered a major and perhaps intractable barrier along the coast of British Columbia. But there are other options that could see resource development occur, and could even see the enhanced flow of Canadian oil and gas to international markets.

The use of trucking and rail can be expanded and the Energy East pipeline could be revived. There are impressive Indigenous-led proposals for new pipelines, the potential Indigenous ownership of Trans Mountain pipelines and more radical suggestions for shipping bitumen to the Far North.

The courts have made it clear, once again, that Indigenous communities and other Canadians have to be consulted on

major resource projects. We need to figure how to do this better, faster and more effectively. ❁

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Capital, not handouts (Gale)

Continued from page 7

and modern-day governance regimes. We are exercising our treaty and Indigenous rights and using the rights we have gained under Canadian law through Supreme Court decisions. We have hundreds of our young people at colleges and universities or in apprenticeship programs. We are working collaboratively to share resources and to find strength together to create the economic basis that enables us to fulfill the social infrastructure needs of our people.

As Indigenous governments, we are taking our full and proper place inside Canada.

The organization I chair, the First Nations Major Projects Coalition (FNMPC), is determined to be an important part of this transformation. FNMPC is a consortium of 44 First Nations from British Columbia, Alberta and Ontario. We are reaching out for additional Indigenous partners across the country and are open to working with domestic and international companies who share our goals and aspirations.

The members of the FNMPC work together to identify investment and business opportunities and to determine how best we can engage with the major projects that are so important in shaping our collective future. Collectively, the members of the coalition have the ability to participate in some of the largest commercial undertakings in the country

and to have our Indigenous values influence the management of those projects.

But we need access to capital to achieve this vital goal. Ownership and equity partnerships are important to First Nations. We have access to tools such as the *First Nations Fiscal Management Act* that will help us manage the wealth transfer that is to occur.

“
Ownership and
equity partnerships
are important to
First Nations.”

First Nations need loans made available to us, based on sound business cases, not handouts or grants. Through the coalition, we have the collective capacity to evaluate, negotiate and develop large-scale resource developments. We want into the Canadian economy, on an equitable and fair basis. To get there, we need comparable access to investment capital, much as Canadian companies and governments do, to finance our participation in these major initiatives.

We hope that Canadians understand the significance to First Nations and to the country of the commercial steps that we are taking. We cannot do this in isolation from other Canadians and corporate partners. With access to adequate investment capital, we can use our Indigenous entrepreneurs to create opportunities for our communities that will help build prosperity for all Canadians. ❁

Sharleen Gale is a Dene woman who serves on council for Fort Nelson First Nation in northeastern BC. She is chair of the First Nations Major Projects Coalition. This article first appeared in the Globe and Mail. (With files from Ken Coates)

Renewable energy (Cross)

Continued from page 15

clean power, while others only approve of small projects because of the environmental damage from large reservoirs. In any case, governments increasingly will be skeptical of large hydro projects after the massive cost overruns at Muskrat Falls in Newfoundland and Site C in BC.

The promised proliferation of jobs from wind and solar power has never materialized. All energy sources are inherently capital intensive, whether renewable, thermal or nuclear. As a result, the jobs Ontario and the Obama administration hoped for when making large green energy investments during the 2008-2009 recession failed to occur. Rather than unleashing a gale of green growth, high prices for renewable energy compounded the loss of jobs in industries that depend on cheap energy inputs.

Nuclear power was thought in the 1970s to be the future of energy, reflecting its scientific image, low costs and no emissions. Some fateful decisions based on this assumption have haunted governments ever since, notably Ontario's bet on nuclear plants and Newfoundland's sale of Churchill Falls power to Hydro Quebec (which itself was debating internally whether to commit to nuclear or hydro power).

The lesson is that the consequences of developing specific energy sources will be felt for decades to come.

If Canada plunges whole-heartedly for renewables that remain high-priced while the US embraces low-cost oil and gas, we will suffer a loss of competitiveness that reduces our economic growth while the US pulls away. As seen with nuclear power, the path forward in energy sources is never as obvious as it seems today since it is impossible to predict how technology and the economy will change. ❁

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

Toronto's bureaucracy (Speer, Lundy)

Continued from page 16

regulations, superfluous inspections and oversight, and perpetual paperwork and red tape. It's notable that urban policy is one of the few areas where the notion of "planning" remains orthodox.

One example: Condo and real estate developers in Toronto typically face nearly a year-and-a-half wait 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.

The City of Toronto and the broader Greater Toronto Area (GTA) are hardly unique when it comes to rising payroll costs in particular and municipal spending in general. Research by the Canadian Federation of Independent Business finds similar trends across the entire municipal sector up until 2013. And newer research by the CD Howe Institute finds that municipal wage growth in Canada has, on average, exceeded inflation for the past several years. This is a recipe for growing budgetary pressures for Canada's cities given that wages, salaries, and benefits comprise more than half of municipal spending.

Comparing city-to-city fiscal performance can be difficult due to differing levels of fiscal transparency across the country. Differing presentations of operating and capital budgets is one of the sources of this transparency gap or what the CD Howe Institute has described as "fuzzy finances."

How does Toronto perform? The CD Howe Institute's regular grading gave the City of Toronto a "C" grade in 2017 after an "F" grade in 2016. This places the city about middle-of-the-pack and shows that there's certainly room for improvement – particularly as Premier Ford implicitly and explicitly calls for greater fiscal scrutiny. It's difficult to test public spending based on

its utility and effectiveness if politicians, public servants, and the public can't figure out how much is being spent and on what.

The upshot is that while Premier Ford is correct to focus on inefficient and costly local government in Toronto and elsewhere in the GTA, it will be incumbent on his government to make the case that fewer elected officials is the right solution to the problem. There's a strong case for reform. But it should start with improving fiscal transparency and ultimately putting local, city, and regional bureaucracies on a much-needed diet. ❁

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Paying people not to work (Crowley, Speer)

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The first is maximizing economic growth. This may seem self-evident, but governments regularly make choices (such as deficit spending) that erode long-run growth in exchange for some short-term objective. Long-term growth is the essential ingredient for higher business investment, job creation, and ultimately living standards for all citizens. Government's principal focus, therefore, must be on growing the economic pie rather than merely slicing it up in the form of redistribution. A pro-growth strategy would involve sustainable public finances, competitive taxation, predictable and limited regulations (including land-use regulations), strong intellectual property rights, high-quality infrastructure and better education and training.

The second is to reform income-support programs to better support paid work. Experimenting with wage subsidies, work-sharing, and more market-responsive job training is a first step. Smoothing out high clawback rates (what economists call marginal effective

rates) for income-support recipients is another. Governments ought to apply a "job lens" to different policy choices to better understand if they're enabling or obstructing people from getting into paid work. The former should be single-mindedly pursued, and the latter should be discarded.

Refusing to accept that some people are "surplus to requirement" and should be warehoused on benefits is the easy half of the compassionate choice on welfare policy. The other half is getting real people into real jobs. It's on that measure that the Ford government should be judged. ❁

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China-US trade war (Chen)

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"Isn't it unfair to ask our people to bear the cost of this trade war?!"

Wow, how much more sharply could he make such a statement! Except that I would replace his wording "commercial capitalists" with "state capitalists" and also note that the money that went to the US was largely for SOEs' global expansion and also somehow flew into the pocket of state cronies.

In summary, these Chinese scholars appear to implicitly welcome the Sino-America trade war in the hopes that it will stop their government's wasteful state subsidies, infringement on property rights, particularly IP rights, and violation of fair market competition. Their ultimate goal is for their people to benefit from a truly free trade between China and the world. Therefore, we need to be mindful not to be fooled by a habitual rule breaker (China) simply because of our distaste of Trump's many personal flaws.

President Trump might be gambling in his trade war against China, and his behaviour in other areas has been as uncertain

as it is baffling. But his approach to China has been on much firmer ground. In this area, his goal has been as clear as it is laudable: a more balanced trade relationship with China by getting that country to truly open up and follow the rules of free trade. Like all the true free-trade believers in China, I wish him luck for the sake of Chinese people, and for the sake of us all. ❁

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“One-China” policy (Lerhe)

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Foreign Affairs office dealing with Taiwan was labelled the “Greater China Division,” a name even Beijing would have problems improving.

Of note, Canada did take a tentative step earlier this year in loosening its otherwise rigid one-China policy – by voicing support for Taiwan’s inclusion in the World Health Assembly, where Canada was joined first by New Zealand and later by Germany, Japan, Australia, the US and others.

Rather than viewing it as an isolated incident, Canada would do well to expand on this initial step and increase its contact and cooperation with Taiwan, especially when it comes to security cooperation. A number of areas of potential cooperation can be identified.

Canada could take the lead in pushing for Taiwan’s inclusion in multinational military exercises like the Rim of the Pacific exercise. Canada already conducts regular naval transits with its allies and partners in the South China Sea, which could eventually be expanded to include exercising with Taiwan.

Given Taiwan’s plans to upgrade her conventional submarines, Canada is in a strong position to support the Netherlands and the US in such efforts owing to our own extensive experience with this sort of submarine upgrading.

And cooperation with Taiwan doesn’t need to be limited to security. For instance, Japan’s Cabinet Secretary recently suggested Taiwan could join the second round of the Trans-Pacific Partnership (later rebranded as the Comprehensive and Progressive Trans-Pacific Partnership). Canada, one of the other original members of the agreement, should be prepared to publicly support this, too. Canada can also join with its allies to press for Taiwan’s membership in the World Health Assembly and World Health Organization.

As Canada’s experience at the 2018 World Health Assembly revealed, there are at least five Western nations ready to ally and confront China when its conduct is particularly egregious. Canada needs to support this group.

The other option is do nothing, and acknowledge that Canada, a respected middle power, is ready to, however briefly, cease defending the rules-based international order that has protected it and allowed it to prosper since the Second World War. Ultimately our government would then have to consider the *Economist’s* 2015 warning that a state that does not stand up for those values “will inherit a world that is less to its liking.”. ❁

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Energy (Majumdar)

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declarations against Canadian energy, and ban disruptive financing against foreign agencies by imposing targeted sanctions.

And Canadian foreign policy should reassert a commitment to the central cause of enabling human development for global prosperity. For too long, climate-change policies have demanded that emerging economies extend the poverty of their

people and delay their economic development, rather than accelerate this growth toward lessening environmental damage. Addressing energy poverty in the world boldly – where the young can light their homes to do homework at night, where industrial development builds smarter cities faster that pollute less, where traditional energy catalyzes transformative growth – should feature centrally in climate policy. Canada must pursue realistic climate-change policies that concede what much of the rest of the world already knows: environmental goals must be set in the context of these economic objectives, not the other way around. It is time to drop the sanctimonious posturing and reassert a proper balance.

Canada enjoys thinking of itself as a country capable of inspiring others, but being a leader in the global community requires a willingness to exert state power in the pursuit of an admirable goal. Leading the establishment of a safe and secure global energy order, in sync with democratic values and shared prosperity, is tied deeply to the Canadian energy and national interests that have, as of late, endured a series of difficult challenges.

This isn’t the first time that Canada’s national interests have encountered obstacles. But Canada itself was forged by overcoming divisions with a big vision: uniting a country with ribbons of steel, and advancing a shared national purpose. For more than 150 years, our country has been unbroken by wars, depressions and hard times. Our experience as one of the oldest democracies on earth affords us the opportunity to apply the lessons of an imperfect past toward shaping a promising future. In an uncertain world, Canada’s essential rise as a power hinges today on our ability to reconnect with the determination and resolve that has already overcome so much. ❁

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