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# COMMENTARY: Managing the Canada-US Relationship From the Honeymoon to the Long-term

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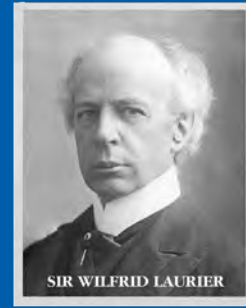
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# Table of Contents

Executive Summary.....	2	Short- and Long-Term Prospects for	
Sommaire .....	3	Canada-US Relations .....	10
Introduction .....	4	During the Honeymoon .....	10
A Special Relationship.....	5	The Longer Term .....	11
The Economy .....	5	Recommendations on Key Priorities for a	
Security .....	7	Renewed Canada-US Relationship .....	12
Defence .....	7	Conclusion .....	14
Energy .....	7	About the Authors .....	15
Advancing Canada's Interests		References .....	16
in Washington .....	8	Endnotes .....	18

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## Executive Summary

**T**he Canada-United States relationship is the largest and most extensive in the world. The degree of economic interconnectedness is unrivaled and the mutual benefits are equally significant. Our defence and security coordination is institutionalized and operates on virtually seamless basis. The “special relationship”, as Prime Minister Justin Trudeau aptly described it in a speech last summer, has deep roots.

Yet strong bilateral relations should not be taken for granted. It takes big ideas, well-developed working relationships, and effective engagement to advance bilateral issues and promote Canada’s interests. Put differently: it is unsophisticated to think that geographical proximity is somehow a substitute for what President Harry Truman called “good will and common sense.”

Prime Minister Trudeau has thus far exhibited an understanding of this reality. He has carried himself well in early interactions with President Barack Obama and is now the first Canadian leader to receive a state dinner in nearly 20 years. It is a positive sign and one for which the new government ought to be lauded.

But warm personal relationships are not a sufficient condition for effective bilateral engagement, especially since President Obama’s term will soon be over and his leading successors have put forward ideas that may not be aligned with Canada’s interests. The key, then, is for the Trudeau government to develop a comprehensive strategy to advance Canada’s interests in Washington. Thursday’s dinner is an excellent start.

The Macdonald-Laurier Institute’s mission is to help to inform sound public policy at the federal level. Our goal in this essay series is to help the new government to best achieve its top policy objectives.

We are honoured to release this essay – the twelfth in the series titled *From a Mandate for Change to a Plan to Govern* – in conjunction with the Canada Institute and the Wilson Center in Washington, DC. The Canada Institute has distinguished itself as a leading source of ideas and bilateral engagement on Canada-US relations.

This essay recommends five areas of focus for the new prime minister and his government. In particular, we recommend that the prime minister's priorities for bilateral engagement ought to be (1) North America's energy needs, (2) climate change, (3) softwood lumber, (4) balancing economic and security interests at the border, and (5) Arctic cooperation.

These priorities can serve as a policy blueprint for a renewal of the Canada-US relationship in the short- and long-term. The ultimate goal is to strengthen what is indeed a "special relationship" between Canada and the US.

## Sommaire

Le Canada et les États-Unis entretiennent les relations les plus étendues de tous les pays du monde. Le degré d'interdépendance économique entre les deux pays est incomparable et les avantages mutuels qu'ils en retirent sont tout aussi importants. Leur coordination de la sécurité et de la défense relève d'une structure administrative qui assure une interopérabilité pratiquement transparente. La « relation spéciale » décrite avec justesse par le premier ministre Justin Trudeau dans un discours prononcé l'été dernier a des racines profondes.

Or, la solidité des relations bilatérales ne devrait pas être tenue pour acquise. Il faut de grandes idées, des relations de travail bien structurées et un engagement efficace pour faire avancer les questions bilatérales et promouvoir les intérêts du Canada. En d'autres mots, il est naïf de penser que la proximité géographique est en quelque sorte un substitut à ce que le président Harry Truman a appelé « la bonne volonté et le gros bon sens ».

Le premier ministre Trudeau a ainsi démontré clairement qu'il comprenait cette réalité. Il s'est appliqué à entrer rapidement en relation avec le président Barack Obama et est devenu le premier dirigeant canadien à être accueilli pour un dîner d'État offert en son honneur en près de 20 ans. Il s'agit d'un signe positif et d'un geste pour lequel le nouveau gouvernement mérite d'être félicité.

Mais des relations personnelles chaleureuses ne pourront pas à elles seules assurer une coopération efficace, en particulier parce que le mandat du président Obama tire à sa fin et que ses successeurs en lice ont avancé des idées qui sont susceptibles de ne pas tenir compte des intérêts du Canada. Pour le gouvernement Trudeau, la solution consiste donc à élaborer une stratégie globale visant à faire progresser les intérêts du Canada à Washington. Le dîner de jeudi constitue un excellent départ.

L'Institut Macdonald-Laurier a comme mission de contribuer à une orientation sensée des politiques publiques à l'échelon du gouvernement fédéral. Notre objectif dans cette série d'articles est d'aider le nouveau gouvernement à atteindre ses principales fins politiques.

C'est un honneur pour nous de publier cet article – le douzième de la série intitulée *From a Mandate for Change to a Plan to Govern* – en collaboration avec l'Institut canadien et le Wilson Center à Washington, DC. L'Institut canadien s'est distingué par son rôle de premier plan en tant que source d'idées et sa contribution à l'engagement bilatéral envers les relations canado-américaines.

Cet article recommande cinq pôles d'intérêt que devraient prioriser le nouveau premier ministre et son gouvernement. Plus particulièrement, nous recommandons que les priorités du premier ministre envers la collaboration bilatérale se concentrent sur (1) les besoins de l'Amérique du Nord en énergie, (2) les changements climatiques, (3) le bois d'œuvre résineux, (4) la conciliation des considérations en matière d'économie et de sécurité à la frontière et (5) la coopération dans l'Arctique.

Ces priorités peuvent servir de plan politique qui serait à la base d'un renouvellement de la relation canado-américaine à court et à long terme. Le but ultime est de renforcer ce qui est réellement une « relation spéciale » entre le Canada et les États-Unis.

# Introduction

*The friendship that has characterized Canadian-American relations for many years did not develop spontaneously. The example of accord provided by our two countries did not come about merely through the happy circumstance of geography. It is compounded of one part proximity and nine parts good will and common sense.*

HARRY TRUMAN (1947)

President Harry Truman's observations about the ingredients for a constructive bilateral relationship between Canada and the United States remain as relevant today as they were nearly 70 years ago on his first official visit to Ottawa. It is a relationship that has helped to shape the economic, cultural, and political life of Canada since prior to its founding. A constructive relationship cannot be taken for granted or assumed to be an inevitable function of geographic proximity. It takes effective engagement, and, as President Truman puts it, "good will and common sense."

Canada's new government arrived in office with the view that its predecessor had failed to properly manage the Canada-US relationship to the detriment of the economic and political interests of Canadians. It has thus placed the bilateral relationship at the top of its foreign policy agenda and set out some practical steps to place more emphasis on common issues, including greater cooperation on climate change. The establishment of a new Cabinet committee on Canada-US relations is a signal of Prime Minister Trudeau's (2015) vision of "real change . . . in the way we manage our relationship with the United States."

This week Mr. Trudeau will travel to Washington, DC for a state dinner with President Barack Obama – the first such formality extended to a Canadian prime minister in nearly 20 years. It is obvious that there is intellectual congruence and personal fondness between the two leaders. This is a useful foundation for effective engagement and an advancement of mutual interests. But the honeymoon is bound to be short-lived due to the US election cycle and the complexity of certain bilateral issues.

The government must have a plan to deal with both short-term irritants and long-term priorities. The measure of success will not just be this first state dinner but rather how it manages the bilateral relationship in the coming years, including following the installation of a new president in 2017. The Trudeau government will need the right mix of big ideas, solid working relationships, and effective engagement to move its bilateral priorities forward, irrespective of whether most of its four-year mandate is spent with President Clinton, Sanders, or even Trump.

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We are honoured to release this essay – the 12th in the series – in conjunction with the Wilson Center's Canada Institute in Washington, DC. The Canada Institute has distinguished itself as a leading source of ideas and bilateral engagement on Canada-US relations.

This essay will help Americans and Canadians better understand the importance of the bilateral relationship on a range of key issues such as trade and investment and national security, and how it can be strengthened in the best interests of both countries.

We will then offer a number of policy options to advance bilateral interests on the top economic and security issues facing our two countries. The ultimate goal is to strengthen the "special relationship" between Canada and the US, as the prime minister rightly described it in an important speech about Canada-US relations last summer.

To this end, this essay recommends five key priorities for bilateral engagement: (1) North America's energy needs, (2) climate change, (3) softwood lumber, (4) balancing economic and security interests at the border, and (5) Arctic cooperation.

## A Special Relationship

Prime Minister Trudeau (2015) has rightly called the Canada-US relationship “definitional” for Canada and managing bilateral relations the third most important responsibility for a Canadian prime minister save for growing the economy and maintaining national unity.

There has been plenty of talk in the past about diversifying Canada's trade patterns (Pierre Trudeau's “Third Option” policy is just one example), exemplified by engagement with multilateral institutions and trade overtures to China or India, but the ongoing economic and political importance of the Canada-US relationship is difficult to overstate.

### The Economy

Consider that annual two-way trade reached \$870 billion in 2014 – the equivalent of \$2.4 billion every day or \$1.6 million every single minute (Global Affairs Canada 2015). Bilateral investment accounts for another nearly \$698 billion (Embassy of the United States of America 2015).

About 77 percent of Canadian exports are destined for the US market. The second largest export market is China which accounts for about 3.7 percent (see table 1). Exports to the US are equivalent to approximately 21 percent of GDP (Foreign Affairs, Trade and Development Canada 2014).

**Table 1: Canada's top export destinations, 2014**

2014 Rank	Country	2014 Value in \$ Billions	% of 2014 Total Exports
1	United States	402.8	76.80%
2	China	19.3	3.70%
3	United Kingdom	15.2	2.90%
4	Japan	10.7	0.90%
5	Mexico	5.4	1.00%
6	Hong Kong	4.6	0.90%
7	Netherlands	4.2	0.80%
8	Germany	4.2	0.80%
9	South Korea	3.8	0.70%
10	France	3.5	0.60%
	Top Ten	473.8	90.30%
	Other Countries	50.6	9.70%
	All Countries	524.4	100.00%

Source: Industry Canada 2015.



Yet these macro numbers do not paint the full picture. The real, on-the-ground importance lies in the jobs, investment, and localized benefits that result from our economic relationship. Canada exports more to Michigan than it does to the European Union (Embassy of the United States of America). While China is the US's largest trading partner in terms of two-way trade, Canada buys twice as many (2015) US exports (see table 2). Canada is the largest customer for 35 US states and among the top three in a further 12 states (Government of Canada). One in seven Canadian jobs depends on trade with the US (Government of Canada), and nearly 9 million US jobs depend on trade and investment with Canada.

**Table 2: United States' top 15 trading partners, December 2015**

<b>December 2015 Rank</b>	<b>Country</b>	<b>Exports (\$ Billions)</b>	<b>Imports (\$ Billions)</b>	<b>Total Trade (\$ Billions)</b>	<b>% of Total Trade</b>
	<b>Total, All Countries</b>	<b>1,504.90</b>	<b>2,241.10</b>	<b>3,746.00</b>	<b>100.00%</b>
	<b>Total, Top 15 Countries</b>	<b>1,067.70</b>	<b>1,728.70</b>	<b>2,796.40</b>	<b>74.70%</b>
1	China	116.2	481.9	598.1	16.00%
2	Canada	280.3	295.2	575.5	15.40%
3	Mexico	236.4	294.7	531.1	14.20%
4	Japan	62.5	131.1	193.6	5.20%
5	Germany	49.9	124.1	174.1	4.60%
6	South Korea	43.5	71.8	115.3	3.10%
7	United Kingdom	56.4	57.8	114.2	3.00%
8	France	30.1	47.6	77.7	2.10%
9	Taiwan	25.9	40.7	66.6	1.80%
10	India	21.5	44.7	66.3	1.80%
11	Italy	16.2	44	60.3	1.60%
12	Brazil	31.7	27.4	59.1	1.60%
13	Netherlands	40.7	16.8	57.5	1.50%
14	Belgium	34.1	19.5	53.6	1.40%
15	Switzerland	22.3	31.2	53.5	1.40%

Source: United States Census Bureau 2015.

The extent of daily commercial and personal connections is staggering. Roughly 400,000 people cross the border each day (Canada and the United States 2015a). An estimated 8000 trucks cross the Detroit-Windsor border each day (Canada and the United States 2015b). Almost 30,000 Canadian students attended school in the US in 2013/14 (Embassy of the United States of America). As part of our integrated automobile production market, each vehicle's components move back and forth 6 or 7 times across the border throughout the assembly process (Parliament of Canada 2009). The economic linkages are not macroeconomic abstractions, they are the sum parts of the deep economic partnership between Canada and the US.

But this relationship is not built on economics alone. Many links tie the two countries together. Security, defence, energy, and the environment are also critical ties. There has been progress in these areas over the past several years but, as we will discuss in a later section, there is room for improvement and an opportunity for Prime Minister Trudeau to champion further coordination and mutual benefit.



## Security

With respect to security, Canada and the US have the world's longest shared border (close to 9000 kilometres in length) and coordinate our border security operations to ensure the secure and efficient flow of legitimate goods and people while at the same time cooperating on matters of cross-border law enforcement and perimeter security. These joint efforts are reflected in a semi-regular United States-Canada Joint Border Threat and Risk Assessment (Public Safety Canada 2010) and a coordination of border infrastructure investment and personnel deployment. It is fair to say that security and defence cooperation is one of the most institutionalized and effective areas of bilateral cooperation.

The Beyond the Border initiative, launched by Prime Minister Harper and President Obama in 2011, is the most recent and ambitious example of bilateral coordination on security matters. As President Obama said at the time: “we [have] agreed to a new vision for managing our shared responsibilities – not just at the border but ‘beyond the border.’ That means working more closely to improve border security with better screening, new technologies and information-sharing among law enforcement, as well as identifying threats early. It also means finding new ways to improve the free flow of goods and people” (White House 2011). Efforts to advance this declaration are well underway and are beginning to generate positive results through various trusted traveller and trusted trader programs.

## Defence

Our defence policy is closely coordinated through the North American Aerospace Defence Command (NORAD) and other bilateral defence arrangements. At any given time, there are more than 700 Canadian Armed Forces members serving in the US and more than 100 US Armed Forces personnel on exchange in Canada (National Defence and Canadian Armed Forces 2014).

The architecture of the Canada-US defence relationship has evolved since 2001 and will continue to take on new dimensions as defence challenges emerge. One area for further engagement is military cooperation in the Arctic. The present concern in the Arctic is the capacity to monitor civilian commercial activity and support civilian agencies and government operating there. But that will soon change. The region is assuming greater strategic relevance and more thinking will need to be dedicated to how to better coordinate our investments and operations with a greater focus on sovereignty and prospective military threats. New investments in drone and satellite capacity, for instance, may be done jointly or through a barter arrangement.

## Energy

North American energy integration has been a subject of considerable controversy in recent years. The Obama Administration's decision to reject permitting for the Keystone XL pipeline was a setback for the creation of a continental energy market similar to our integrated automobile manufacturing supply chain. Yet notwithstanding this specific decision, Canada and the US continue to have the closest energy relationship in the world.

Canada is the largest energy supplier to the US across a range of energy sources.<sup>1</sup> Consider that in 2014 Canada's energy exports were \$146 billion, of which 93 percent (or \$136 billion) were directed to the US. This breaks down to 2.9 million barrels of crude oil and refined products per day (Canada and the United States 2016). North American energy demand is likely to remain high in the near-term, despite growing US supplies, so the two governments will need to work together to build support for a long-term continental solution. However, given the recent politicization of cross-border energy decisions, Canada should neither expect nor look for any changes to the status quo until a new president takes office.

A new energy relationship with the US will demand smart climate change policy. The new Canadian government was critical of its predecessor for the absence of strong environmental considerations and has argued that a better domestic climate change regime will help advance Canada's energy interests in Washington (Trudeau 2015). While the extent of this linkage remains untested, there is no question that the current US administration is responsive to environmental interests and a more robust Canadian policy may help to counteract negative perceptions about oil sands development in particular and Canada's resource sector more generally.

Yet, as we will discuss later, the Canadian government will need to proceed carefully so as to avoid creating a competitive disadvantage relative to the US. Consider that the US Supreme Court has recently blocked the Obama administration's coal emissions regulations and it is highly unlikely that Congress will enact any significant environmental policy in the foreseeable future. There is a risk, then, that if Canada rushes ahead with an uncoordinated climate change policy it will put the country offside a major trading partner and a competitor in other markets. This does not mean that the solution is to do nothing, it just means that Canadian policy must be attuned not just to the administration's climate change rhetoric, but also to its substance.

The Canada-US relationship has been described many ways. It has frequently been said that we have a "special relationship" (Morici 1991). One author has talked about us "drifting together" towards greater coordination and integration (McDougall 2006). It was even characterized as the equivalent of "sleeping with an elephant" by the current prime minister's father (Trudeau 1969). A more apt analogy for the relationship may be that US attention is like a lighthouse. With so many competing priorities in this scope, Canada receives very short periods of intense attention from the US. When these occur, it is vital that Canada be ready with well-thought-out proposals before the US gaze moves elsewhere. However you describe or measure it, the Canada-US relationship is extremely important and the Canadian government must focus on this partnership.

## Advancing Canada's Interests in Washington

**T**he formula for advancing Canadian interests in Washington is not complicated. It takes big ideas, strong working relationships, and effective engagement to ensure that bilateral issues are on the political radar. But a simple formula is not easy to execute. It must involve strategic thinking and the ability to think through the interests of both sides in order to craft a mutually beneficial deal.

The first ingredient in an effective strategy are big ideas. The asymmetrical nature of the relationship means that it is difficult for Canada to attract political attention in Washington or to set the bilateral agenda more generally. But this is further exacerbated when we show up with small, technocratic ideas that the US perceives as lists of irritants. There is virtue in thinking big. As one of us has written:

Do you remember the role of big ideas in the North American relationship? They are now the stuff of history books but they gave us the confidence to build great trade routes such as the St. Lawrence Seaway and cross-border stewardship plans like the Boundary Waters Treaty and the acid rain agreement. They gave us bold trade agreements such as the auto pact, the Canada-US free-trade agreement and NAFTA. (Dawson 2015)

Is there room for big ideas in the new Cabinet committee on Canada-US relations with its mandate to

focus on “issues concerning the fostering of strong relations between Canada and the United States and the advancement of mutual interests” (Trudeau 2016)? The committee members should avoid falling victim to transactional issues and instead ask themselves about the big challenges likely to confront the Canada-US partnership. What does the relationship look like in 20 years and how can we optimize it?

A future-oriented agenda requires that Canada give serious consideration to the following:

- How can we work together to meet North American energy demands and make the continent less susceptible to geopolitical energy decisions made elsewhere in the world?
- What technologies do we need to foster to maximize our economic, cyber, and territorial security?
- How can we consolidate North America’s competitive advantage through the most efficient supply chains in the world?
- Is it possible to protect Arctic sovereignty, ensure Arctic security, and maximize the region’s economic opportunities?

The Trudeau government has shown a willingness to tackle significant issues and bring in the right personnel to develop its thinking and execute its policy. This is a big job and it will require the sharpest minds.

Strong working relationships and personal connections are an important second ingredient. Politics is a human endeavour. Some academics may have theoretical explanations for bilateral outcomes but practitioners know that much can be explained by the overlap of personal networks and the slow, steady diplomacy of relationship building. As former Prime Minister Brian Mulroney says: “Without a friendly and productive relationship with the president of the United States we have a bottleneck in our vital bilateral arrangements and far less influence over the advancement of our policies with other nations around the world” (quoted in Brennan 2011).

Prime Minister Trudeau and his team have shown an aptitude for relationship building. It also does not hurt that the Trudeau government and the Obama Administration are bonded by pre-existing personal connections from progressive political circles, and their converging ideas on a range of issues, including fiscal policy, income inequality, and climate change.

But while strong working relationships are necessary to productive bilateral engagement, they are not sufficient. An effective strategy to advance Canada’s interests must recognize the limitations on what the president alone can do in the US system of checks-and-balances, and find ways to build political coalitions involving key congressional leaders, business groups, and other interests. This requires strategic diplomacy that identifies prospective coalition partners based on shared interests and then works to advance the right solutions. It can be a painstaking process but, as the divide between Congress, the Senate, and the White House seemingly grows, it is often the only option to secure positive outcomes for Canada.

The Canadian government has gotten much better at this type of broad-based, bottom-up diplomacy in Washington. The Department of Global Affairs website provides significant details about Canada’s economic and cultural impact on every US state and is capable of drilling down further to capture this information at the level of congressional districts (Canada and the United States 2015a). This type of local focus is an effective tool in advancing Canada’s interests, often referenced by US counterparts in business and government.

Consider the recent experience with the country-of-origin labelling (COOL) issue that was eventually resolved after several years of irritation. These measures blocked Canadian market access, particularly in beef and pork, by mandating country-of-origin labels that were impractical given the

highly integrated nature of bilateral meat production. Canada responded by launching a successful challenge at the World Trade Organization, yet Congress failed to comply and the irritant persisted (Chadnick 2016). The Canadian government developed a list of possible retaliatory tariffs based on a sophisticated analysis of the dominant industries that were important to the districts represented by key Congressional leaders, helping to encourage a successful resolution of the issue. As the Republican chair of the Senate's powerful agriculture committee put it following the repeal legislation: "From the ranchers in Kansas to the jewelry makers on the East Coast, every state had something to lose from keeping mandatory COOL intact" (Canadian Press 2015). His statement illustrates that Canada can do what it takes to generate action in Washington.

The main takeaway is that the new Trudeau government must not let its strong personal connections to the current administration cause it to ignore the other two ingredients to advance Canada's interests: strategic thinking and effective deal-making. This is particularly important given that President Obama's term will conclude by the end of the year and his successor may be differently disposed to Canada in general and the Trudeau government's worldview in particular. The prime minister must be ready to advance Canada's interests irrespective of the election outcome.

## Short- and Long-Term Prospects for Canada-US Relations

### During the Honeymoon

The Trudeau-Obama honeymoon will be cut short by presidential campaigning and President Obama's departure from public office. The sort of Canadian irritants that the president might be willing to deal with in his last year are those that will have a positive (or neutral) effect on his legacy as a leader who championed the environment and got things done.

This means that issues such as pipeline permitting will not see any resolution until after the next president is sworn-in. Because it is a honeymoon, however, the president is inclined to frame negative actions or decisions in ways that create the least damage for the prime minister. The rejection of the Keystone XL pipeline was timed early in Mr. Trudeau's tenure (and on a weekend) to minimize the political backlash. Similarly the Obama administration did not criticize the Canadian government's withdrawal from the bombing mission against ISIS and instead found areas where Canadian contributions could be expanded, including air fuelling and reconnaissance support, training for Iraqi security forces, and enhanced diplomatic and humanitarian assistance.

Just as he pardons felons (and turkeys on Thanksgiving), the president may be inclined to do a favour for Canada on his way out the door provided it does not depart significantly from his core interests or create major problems for his (hoped-for) Democratic successor. If Canada is lucky, this favour will come in the form of a new Softwood Lumber Agreement. Market conditions, exchange rates, and pressure from US lumber producers are such that there is very little appetite for a new agreement in the US. Unless President Obama offers his new friend Prime Minister Trudeau a renewed agreement as a parting gift or as a quid pro quo on another file, Canada can expect a prolonged period of disagreement over softwood.<sup>2</sup>

Such a gift would not come without strings. Armchair policy quarterbacks have speculated about a



trade-off between softwood and Canada's unreserved support for the Trans-Pacific Partnership (TPP). However, Canadian support for the TPP will not have much effect on the US Congress, which is the major impediment to President Obama's successful passage of his legacy trade agreement.

More realistic would be a linkage between softwood and the entry-exit provisions negotiated as part of the Beyond the Border initiative launched by President Obama and Stephen Harper in 2011. In principle, an agreement to share information between national customs authorities about who is entering and exiting our respective territories would be a great boost to our shared security and law enforcement objectives. Currently border officials know when people enter their territory but have no formal record of their departure. Better information sharing between the US and Canada would help to expedite pre-clearance for trusted travelers and enhance mutual security. Canada should move ahead to formalize the entry-exit agenda and not let short-sighted privacy concerns derail this important initiative just short of the goal line.

## The Longer Term

A longer-term analysis of Canada-US relations would be remiss if it did not mention the presidential election process currently underway. It has been quite a ride and, as of the time of this essay's release, it is still not over. The purpose of this section is not to analyse the political campaign or unpack the underlying issues that are contributing to the efficacy of the prevailing inward looking, anti-trade message.<sup>3</sup> Instead we seek to highlight some of the key issues in the presidential campaign and how they may affect Canada.

Several of the leading candidates share an ambivalence toward NAFTA. Most of their consternation about the free trade agreement is focused on Mexico but Canada indirectly finds itself in the crosshairs. NAFTA has been called "a disaster" (Gollom 2016), "destructive" (Sanders 2016), and a "mistake" over the course of the campaign (Holan 2008). The Canadian government will obviously need to monitor these developments and ensure that the critical importance of North American free trade is not forgotten. This is one area where growing a more productive bilateral relationship with Mexico can help to bolster Canada's efforts.

Yet NAFTA is not the only issue looming in the presidential cycle. Some candidates oppose the Keystone pipeline. Others have used rhetoric that would almost certainly lead to a thickening of the border. Virtually all of the candidates would withdraw the United States from a position of global leadership as a result of mounting domestic problems and war weariness. A disengaged US is not good for Canada, given that our interests so often align and that Canada's global influence is partly a manifestation of our proximity to the world's lone superpower.

It is hard not to feel pessimistic about the future of Canada-US relations following President Obama's departure. But there are some reasons for cautious optimism. Speaker Paul Ryan is a border-state representative and has shown an affinity towards Canada and some of our bipartisan public policy choices (Bolen 2012). The Republican-controlled Congress has generally been pro-free trade and supportive of Canada's participation in the TPP and other multilateral trade issues (McKenna, McCarthy, and Koring 2014). There is hope that, after the dust has settled and the campaign rhetoric has subsided, the Canada-US relationship will have supporters on both sides of the aisle.

It is in this context of uncertainty that the Trudeau government must find ways to advance Canada's interests. Early signs are positive. The media report that the president and prime minister have hit it off personally and meetings at the Cabinet level have also gone well. The challenge is to translate this early progress into a sustained, long-term strategy based on sufficient measures of good will and common sense, as the 33rd president put it to the Canadian Parliament in 1947.

# Recommendations on Key Priorities for a Renewed Canada-US Relationship

Early visits such as the leaders' first meeting at the APEC meeting in the Philippines and the Washington state dinner are highly visible and highly symbolic, but offer few opportunities for real engagement except in bilateral discussions at the margins. Still, Prime Minister Trudeau is wise to take these meetings seriously in order to ensure that Canada is putting forward constructive ideas for the short- and long-term. In the spirit of contributing to the discussion on Canada-US relations, we offer five key ideas to help the government inform its policy thinking.

The first is greater North American energy cooperation. Canada remains a world leader with respect to energy resources and the US is going to be a major user of fossil fuels even as it develops its domestic supply. Canada has the second-largest proved oil reserves and is the fourth-largest producer and exporter of natural gas. This is to say nothing of the common business practices, transparent pricing, and market-oriented investment decisions that separate Canada from other competitors. Consider the statement by the Saudi Arabian oil minister in February 2016 that his country will not cut production despite plummeting global prices that are badly hurting higher-cost North American producers. His message was a “shot across the bow” and a sign that Canada and the US need to diminish the influence of OPEC countries since many of them are at best ambivalent to our interests and at worst outright hostile (Spindle 2016).

This means working together to achieve greater continental energy independence. Saskatchewan Premier Brad Wall has called such a goal the “moon mission of the next couple of decades” (Savage 2012). It is an ambitious goal but it is worthwhile for both Canada and the US in the face of the geopolitical calculations behind production decisions in other energy-producing jurisdictions. Reaching the goal will require the construction of more binational energy infrastructure including, but not limited to, the Keystone XL pipeline. Prime Minister Trudeau will need to make the case for infrastructure cooperation for oil and gas and also electricity, in a continued and sustained way.

Second, an ambitious energy development agenda ought to be matched with a similar level of common ambition with regards to climate change. Prime Minister Trudeau (2015) has said that the Keystone decision was at least in part a reflection of Canada's poor environmental record and that a stronger plan can actually help advance Canada's energy policy objectives. He may be right. Early signs suggest a shared view between the prime minister and the president on the subject.

This convergence is translating into some positive developments on climate change among Canada, the US, and Mexico. The recent memorandum of understanding between the three countries on energy and the environment – what has been called a “green NAFTA” – is a great sign (Government of Canada 2016). But the Canadian government must not let new commitments on climate change run too far ahead of our North American partners, lest these ambitions create inadvertent divergences. Canada must do its part, but there is a risk that tough new Canadian standards will not be matched by the US or Mexico. The recent judicial blockage of the president's new rules on coal emissions is a good example of the potential for the stated objectives of the Administration to fail to translate into concrete action. In practice, this means that the Canadian government should work closely with the US and Mexico to develop common standards and implementation timelines with respect to industrial carbon emissions limits so that Canada is not left at a competitive disadvantage by racing ahead on climate change.

Third, Prime Minister Trudeau ought to press for a renewal of the Softwood Lumber Agreement. Softwood lumber has been a bilateral trade irritant for decades because it is excluded from trade agreements and managed on a sectoral basis. The US lumber industry argues that Canadian lumber exports are unfairly subsidized. Canada disagrees. A 2006 agreement was reached that brought temporary stability to the trade environment.

The agreement was imperfect but both sides accepted it in order to keep market disruption to a minimum. Since the last agreement expired in October 2015, there is now uncertainty about what is to follow. Decreased Canadian exports and a low Canadian dollar have created market conditions that make the US reluctant to settle. The US election cycle further exacerbates the impasse. Unless President Obama offers a renewed agreement as a parting gift or as part of a quid pro quo on another file, there is a real risk of a prolonged period of disagreement on softwood lumber.

Still, the minister of trade Chrystia Freeland has said that negotiations remain ongoing and that the Canadian government has made the case for an extension at the highest level. If no results are announced at the state dinner, the two leaders should consider appointing high-profile envoys to explore potential roads to resolution. On the Canadian side, Prime Minister Trudeau may consider appointing a high-profile conduit such as former interim Liberal leader Bob Rae, or former ambassador Gary Doer to help advance this file.

Fourth, the Canadian government would be wise to find ways to raise and sustain border security on the agenda given the ongoing interest in this file in DC. The Senate Homeland Security Committee's examination of Canada's Syrian refugee policy is a sign that the border security remains paramount for US policy-makers. This may become an even greater area of concern as the Trudeau government proceeds with its campaign pledge to legalize marijuana (Blanchfield 2016).

A bad outcome for Canada would be a resumption of border security measures that slow down or raise the costs of legitimate trade and commerce. Research estimates that border delays for trade and travel cost Canadians about 1.5 percent of GDP (Moens and Gabler 2012). Thus the prime minister will need to show a seriousness on border security that does not negatively affect our trade imperatives.

One consideration may be to focus part of the new government's massive new infrastructure funding to border assets to strengthen security and expedite the flow of goods and peoples. This would help to ensure that incremental infrastructure dollars are not going to lower-priority assets and instead are directed to "trade and security infrastructure" that builds on the transformational project at the Detroit-Windsor crossing. Another idea is the establishment of a joint committee of Congress and Parliament charged with overseeing Canada-US relations in general and border issues more specifically (Crowley 2011). Both countries have an interest in enhanced trade and transportation infrastructure but too often this interest ends at national borders. A joint committee could be a powerful governance tool to advance joint trade and security interests.

A related priority for the Obama Administration is an agreement to share information between national customs authorities about who is entering and exiting our respective countries. While steps have been taken to share information on third-country nationals, the job remains unfinished. A comprehensive information-sharing agreement could be a boost to our shared security and law enforcement objectives, and present a so-called "give" that Prime Minister Trudeau could put forward in exchange for progress on one of his priorities.

A fifth priority ought to be greater coordination in the Arctic – an important part of the North American perimeter security. Canada and the US signed a Tri-Command Framework for Arctic Cooperation in December 2012 to expand our military cooperation in the region. The agreement covers specific

areas of cooperation in the preparation for and conduct of safety, security, and defence operations. It is supposed to enhance “joint and combined readiness in support of safety, security and defence missions through combined training and exercises reinforcing partnerships” between the two countries (National Defence and Canadian Armed Forces 2014).

It is an important step yet there is scope for more coordination and joint engagement in the North. Russia’s ongoing aggressive posture and other perimeter threats suggest that Arctic military cooperation must extend beyond monitoring commercial activities and participating in safety operations. Some commentators have warned about the risk that the Arctic sovereignty file may soon become hot (Friedman 2014).

Canada and the US therefore have common interests in expanding our joint efforts in the Arctic to assert sovereignty and build our defence capacities. The previous Canadian government had begun to consider options for acquiring new drone and satellite capacity for the North. The Trudeau government may wish to accelerate this planning and consider options for integrated procurement through a joint spend or barter arrangement. A satellite payload, for instance, could be cost-shared by the two countries. Canadian companies have a competitive advantage with respect to intellectual property rights and pre-existing approval for spectrum use for a Northern satellite, and thus could play a key role in supplying such technology (Lambert 2015). Short-term options could also include an expansion of joint military exercises such as Operation NANOOK to build up common Arctic capacity.

## Conclusion

**T**he Canada-US relationship is the largest and most extensive in the world. The degree of economic and social interconnectedness is unrivaled and the mutual benefits are equally significant. Our defence and security coordination is institutionalized and operates on a virtually seamless basis.

But, strong bilateral relations should not be taken for granted. It takes big ideas, well-developed working relationships, and effective engagement to advance bilateral issues and promote Canada’s interests. Put differently: geographical proximity alone is no substitute for President Truman’s formulation of good will and common sense.

Prime Minister Trudeau has exhibited an understanding of this reality. He has been an equal partner in early interactions with President Obama and is the first Canadian leader to receive a state dinner in nearly 20 years. It is a positive sign and one for which the new government ought to be lauded.

But warm personal relationships are not a substitute for effective bilateral engagement especially since President Obama’s term will soon be over and his prospective successors have put forward ideas that may not be aligned with Canada’s interests. The key, then, is for the Trudeau government to develop a comprehensive strategy to advance Canada’s interests in Washington over the short and long term.



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## Endnotes

- 1 As an illustration: Canada supplied approximately 18 percent of the uranium used in US nuclear power plants and provided 98 percent of all US natural gas imports representing 10 percent of US consumption (Canada and the United States 2016).
- 2 Note that softwood lumber is not covered by trade arrangements such as the NAFTA or the WTO. Because of fundamental differences over pricing/harvesting methods, Canada's exports of softwood lumber to the US are governed by a series of bilateral agreements that expire every few years, causing periods of dispute and discord.
- 3 Others have sought to do so. One of the best is David Frum's (2016) recent essay entitled "The Great Republican Revolt."



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