



# INSIDE POLICY

THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

APRIL–MAY, 2013



## *Justin Trudeau: Liberals' salvation or will Trudeaumania II fizzle?*

*Ken Boessenkool, Steven Langdon  
and John Duffy provide analysis*

*Also, policy experts comment on energy strategies, equalization, Keystone, smuggling,  
Canada's pension system, health reform, immigration and national security*



# INSIDE POLICY

THE MAGAZINE OF THE MACDONALD-LAURIER INSTITUTE

*Published by the Macdonald-Laurier Institute*

Brian Lee Crowley, Managing Director, mgdir@mli.ca

**Editor:** James Anderson

**Contributing Writers:**

Thomas S. Axworthy	Brian Lee Crowley	Ian Lee
Andrew Balfour	Laura Dawson	Kevin Lynch
Donald Barry	Don Drummond	Janice MacKinnon
Ken Boessenkool	John Duffy	Velma McColl
Brian Bohunicky	Patrice Dutil	Ted Menzies
Scott Brison	Julian Fantino	Robert P. Murphy
Derek H. Burney	Daniel Gagnier	Peggy Nash
Catherine Cano	Stanley Hartt	Geoff Norquay
Scott Clark	Tasha Kheiriddin	Colin Robertson
Ken Coates	Jeremy Kinsman	Robin V. Sears
Celine Cooper	Steven Langdon	Gil Troy
Philip Cross	Brad Lavigne	Peter DeVries

*Cover photo by Adam Scotti*

*Design by Jessie Willms*

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*Subscriptions: \$39.95 per year, single issue, \$6.95. The digital edition is available at [www.zinio.com](http://www.zinio.com) for \$19.95 per year, single issue \$3.95. Printed in Canada.*

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ISSN 1929-9095 (Print) | ISSN 1929-9109 (Online)

Inside Policy: 8 York Street, Suite 200, Ottawa ON, Canada K1N 5S6, PH; 613-482-8327

***The Macdonald-Laurier Institute is grateful to Air Canada and Intuit for their support of Inside Policy magazine.***

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- **How to fix Canadian health care.**



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**CONTACT US:** Macdonald-Laurier Institute  
8 York Street, Suite 200  
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# Editor's message



We have another great selection of articles in this issue of *Inside Policy* magazine.

With the election of Justin Trudeau as leader of the Liberal Party of Canada this past weekend, we use our “Partisan Perspectives” section — where we publish opinions and analyses from those with experience inside the political arena -- to present commentaries from some veteran political insiders. Conservative strategist Ken Boessenkool, former NDP MP Steven Langdon and Liberal strategist John Duffy examine the policy and tactical implications of Trudeau’s ascension to a once-cherished but now somewhat tarnished throne. Needless to say, there are some differing views.

This issue also features plenty of insightful commentaries and analyses from distinguished policy experts, including:

- Laura Dawson and Stefania Bartucci call for multi-jurisdictional cooperation to eliminate “contraband havens” which serve as transit points for the cross-border movement of illicit goods;
- Colin Robertson explains how Canada can become a world leader with a ‘made in Canada’ eco-energy strategy (we also present a speech by American energy expert Joseph Dukert, who calls for continental energy cooperation).
- professor Donald Barry of the University of Calgary, says that the fate of the Keystone pipeline may depend on the federal and Alberta government’s progress towards more robust oil and gas regulations;
- former Saskatchewan Finance Minister Janice MacKinnon argues that preserving the noble ideal of Canada’s health care system will require some fundamental changes which challenge conventional thinking;
- MLI Director Brian Lee Crowley and Robert P. Murphy suggest reforming equalization by exempting revenue from non-renewable natural resources;
- in an MLI Straight Talk feature, former Crown prosecutor Scott Newark offers his thoughts on immigration and national security;
- professors Ian Lee and Vijay Jog of Carleton University challenge the widely-held notion that there is a pension crisis;
- CIDA Minister Julian Fantino -- in a piece co-authored with Peru’s minister responsible for mines -- describes how the sustainable, ethical management of extractives can help pull people out of poverty;
- in a paper for the Council on Foreign Relations, Robert Pastor suggests there is no better path to stimulate the US economy, increase US competitiveness, and bolster US influence in emerging markets than by deepening integration with Canada and Mexico.

We are grateful to all of our contributors for allowing us to share their insights and analyses with *Inside Policy* readers.

*James Anderson*

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# Combatting illicit cross-border trade

*Laura Dawson & Stefania Bartucci*

The 401 Corridor encompassing the border areas of Ontario, Quebec, New York and Vermont is a well-known transit point for the movement of illicit products between Canada and the United States. Organized criminal groups exploit the corridor's unique geographic and governance features to create a sophisticated and diversified contraband network.

Illicit cigarettes are the main product moving through the contraband pipeline. However, the infrastructure created for tobacco smuggling provides ideal conditions for the movement of drugs, firearms and even illegal migrants to major urban centres in the United States and Canada.

International organized crime and terrorist groups are implicated in the activity. Moreover, the jurisdictional complexity provides authorities with an excuse to avoid dealing with the causes of the problem and possible solutions.

Criminal organizations are exploiting First Nations legal and terri-

torial rights, recruiting youth to facilitate the trade, and crowding out legitimate economic activity. The existence of this criminal network leaves both Canadian and American citizens vulnerable to security threats and diminishes the integrity of our shared border.

Far from a victimless crime or a local police problem, cross-border contraband smuggling is an epidemic that renders both countries vulnerable to external threats. Smugglers operating with near impunity threaten the safety and integrity of local populations and the viability of future Canada-US economic and security cooperation in the borderlands. A solution is possible but it requires an unprecedented level of cooperation and coordination at the federal, state, provincial, municipal and First Nations level.

## Evolution of a contraband pipeline

Most contraband tobacco originates in Mohawk facilities on the US side of the border and is transported for sale to Canadian consumers without the payment of legally required taxes<sup>(01)</sup>. However, with the establishment of an effective contraband network, the products

(01) The illicit tobacco trade in the US includes cigarettes manufactured on tribal lands but largely involves name-brand cigarettes that have been illegally transported for sale from a low-tax jurisdiction to a high-tax jurisdiction.

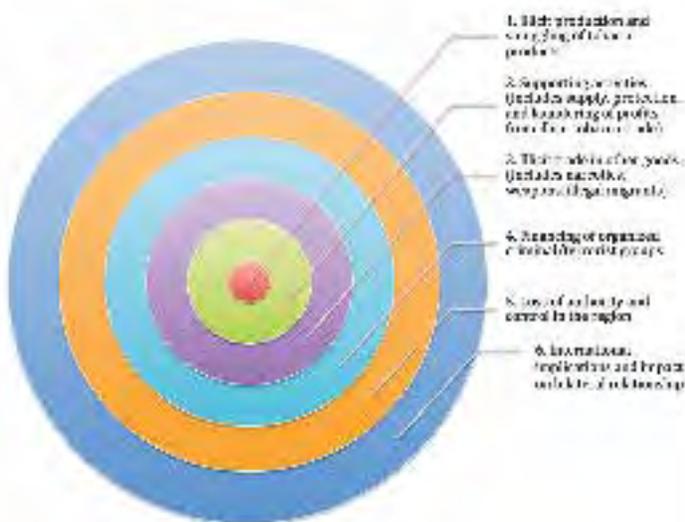
moving through it have expanded to include narcotics, weapons and people.

According to a recent publication by Dr. Jean Daudelin for the Macdonald Laurier Institute <sup>(02)</sup>, the smuggling network can be understood as a series of concentric circles. At its core are illicit production and smuggling of tobacco products. Surrounding it is a second circle of illegal activities linked to the supply of the factories, the protection of the facilities and of the trade, and the laundering of profits from it.

A third circle involves the use of the smuggling routes and networks for the illegal trade of other commodities, including drugs, weapons, and illegal migrants. The fourth circle encompasses activities financed with the proceeds from illicit trade, including terrorism and other criminal activities outside the geographic region of the contraband pipeline.

A fifth circle concerns the potential loss of effective control over territory, resulting from the power of illicit networks to overwhelm local governance or from conflicts between the territory’s population and law enforcement agencies as a result of the repression of illegal activities.

Finally, the sixth circle encompasses the international dimension, including how states react to the insecurity generated by increased vulnerability to external threat and how erosion of rule-of-law threatens the broader cross-border security relationship.



### Unique geographic and governance conditions of the 401 corridor

Geography is the main contributor to the creation of a contraband haven. Within the 401 Corridor, the boundaries of seven governments (two countries, two aboriginal governments, two provinces, and one

state) come together, making it extremely difficult to effectively monitor and control.

The Seaway International Crossing runs from the city of Cornwall, Ontario to Massena, New York, crossing over Cornwall Island and the St. Lawrence Seaway. The bridge spans the Mohawk Nation of Akwesasne. For most of the region, the St. Lawrence Seaway is the dividing line between Canada and the United States and the aboriginal lands of the Mohawk Council of the Akwesasne (Canada) and the St. Regis Mohawk Tribe (United States). The Mohawk Nation of Akwesasne also controls a number of small islands within the river and lands south of the river in Quebec, which lie adjacent to the US border and the St. Regis Mohawk territory.

The Canadian customs checkpoint at the crossing has been in dispute since a 2009 conflict between the Canada Border Services Agency (CBSA) and the Mohawk community. The checkpoint was moved from its original location on the Mohawk-controlled Cornwall Island, to its current, temporary location on mainland Cornwall. The Government of Canada has formally applied to the United States Government to operate joint clearance facilities on the US side of the bridge, but no decision has been reached.

Although the implications of the movement of the customs checkpoint are unclear, this new arrangement would leave a wide swath of land between the port of entry in Massena right across Cornwall Island and mainland Ontario clear of any mandatory inspection checkpoints for people and goods crossing the Seaway Bridge.

The official border crossing at Cornwall-Massena is only one of many possible access points in this sparsely populated, largely rural region. The river often freezes over during the winter resulting in numerous unofficial “ice roads” between the United States and Canada. Covert travellers can traverse undetected through remote areas with a combination of all-terrain vehicles, snowmobiles, and speedboats or they can simply cross at one of the unmanned crossings east of Cornwall <sup>(03)</sup>.

The geography and complex governance structures of the 401 Corridor pose unique challenges for federal, aboriginal, provincial, state and local law enforcement agencies. Any successful anti-contraband efforts are most often the result of multi-jurisdictional cooperation.

### Collateral crime and security threats tied to contraband tobacco

The illicit manufacture and trade of tobacco products is a business. It involves suppliers, the operation of production and storage facilities, the recruitment of workers, the establishment of distribution networks, and the need to access credit and “banking” services to protect and invest profits. Tied around an illegal core, these activities make up a large constellation of illicit activities, involving a large number of people. Law enforcement officials with limited resources and com-

(02) Daudelin, Jean, 2013. “Border Integrity, Illicit Tobacco and Canada’s Security.” Ottawa, Macdonald-Laurier Institute.

(03) For example, since 2010, some 500 illegal migrants have been caught entering Canada at the unmanned crossing at Stanstead, Quebec to take advantage of Canada’s refugee system.

peting priorities are less able to disrupt high-level criminal organizations that control the trade and interventions with lower-level couriers is limited to incidents of violence and overt criminality. Within the community, tolerance of the contraband trade also depends on low levels of visible violence<sup>(04)</sup>.

According to the RCMP, 74 percent of those involved in the contraband tobacco trade also traffic drugs and/or weapons and a further 30 percent have known involvement in violent crime.

However, due to the difficulties in policing the corridor and sophistication of the criminal groups engaged in the trade, the majority of RCMP arrests net only low-level youth couriers.

*If the incentives for tobacco smuggling were to decline (lower demand, lower prices, etc.), diversification of the network would necessitate increased involvement of a more virulent form of criminal organization, willing to engage in the higher risk movements of narcotics, weapons, and other contraband.*

## The multipurpose contraband pipeline

While most of the trade is in tobacco, significant amounts of illegal drugs, weapons and people are flowing through the 401 Corridor. Reports from the CBSA and the RCMP describe a pipeline that carries weapons, cocaine and to a much lesser extent heroin into Canada, while illegal migrants, ecstasy and marijuana are smuggled into the United States.

**Drugs:** Based on seizure reports, the flow of drugs northward into Canada is relatively small but the same cannot be said for the south-bound flow into the United States. An estimated 20 percent of Canada's high-potency marijuana moves through the 401 corridor<sup>(05)</sup>. Seizures of ecstasy and methamphetamines have also increased in recent years. The White House Office of National Drug Control Policy has identified the region as a hub of a narcotics distribution network for eastern Canada, eastern United States (New York and New England) and the Great Lakes Region, operated primarily by outlaw motorcycle gangs<sup>(06)</sup>.

**Weapons:** Weapons, as a commercial product, do not constitute a major part of the contraband trade in the 401 corridor. There have been isolated reports of seizures of automatic weapons and even grenade launchers. However, weapons are often found during seizures of other forms of contraband because weapons are necessary tools to protect business and enforce contracts. Tobacco trafficking is a relatively low-violence activity. If the mix of contraband were to shift to higher-risk/value products, the incidence of regional violence would also increase.

**Human Smuggling:** One of the most notorious cases of human smuggling through the 401 Corridor took place in the late 1990s when a coordinated policing action by US, Canadian and aboriginal law enforcement agencies broke up a ring responsible for the movement of some 3600 Chinese nationals from Canada into the United States. It is estimated that the smuggling ring grossed \$170 million USD over a two-year period<sup>(07)</sup>. The incidents of human smuggling have declined following 9/11, due to stricter monitoring and enforcement by authorities in both countries. Nevertheless, frequent reports of thwarted attempts to smuggle small groups of nationals from countries including China, Korea, Pakistan, Poland, and most recently Nigeria, suggests that there is a continuing flow of migrants entering both countries illegally. (Reports suggest that most migrants are seeking access to the United States but a handful move northward, especially those facing US deportation orders.)

Cornwall-Massena is one of Ontario's lower volume border crossings for legitimate container traffic but the unique geographical and jurisdictional features of the region, combined with lack of effective law enforcement and supervision make it an ideal route for low volumes of high-value illicit trade, especially products destined for Ottawa, Toronto, Montreal, Boston or New York City. Smugglers may try their luck at the border or they can take an SUV across one of the unmanned border stations or engage the services of a local guide to transport goods through the sparsely inhabited territory by means of speedboats, snowmobiles and ATVs.

Currently, tobacco makes up the majority of the contraband trade but, given the sunk costs in creating and maintaining the contraband network, this infrastructure can be easily repurposed to increase the proportion of other forms of contraband crossing the border.

As well, even though there are external criminal organizations involved in distribution and planning for the current contraband network, cross-border transportation relies on local individuals who know the geography well and are willing to engage in the moderate risk-reward activity associated with tobacco smuggling.

If the incentives for tobacco smuggling were to decline (lower demand, lower prices, etc.), diversification of the network would necessitate increased involvement of a more virulent form of criminal organization, willing to engage in the higher risk movements of narcotics, weapons, and other contraband.

Mohawk community members argue that the organized crime rings are the major beneficiaries of a contraband economy that crowds out legitimate economic activity and contributes to criminalization of, and discrimination against, aboriginal groups. The larger issue, they argue, is that the contraband economy could not have taken root if there had been a vibrant and legitimate economy present in the first place.

(04) Evidence from a meeting of the Standing Committee on Public Safety and National Security, 40th Parliament, 3rd Session, April 27, 2010.

(05) Kemp, Brian. 2011. "Akwesasne Area an Ecstasy Smuggling Hotbed." CBC News. September 28.

(06) Office of National Drug Control Policy. 2012. "National Northern Border Counternarcotics Strategy."

(07) U.S. Government Accountability Office. 2000. "Alien Smuggling: Management and Operational Improvements Needed to Address a Growing Problem." Report to Congressional Committees, GAO/GGD-00-103. Washington, DC: United States Government Accountability Office.



They perceive that historic agreements regarding free movement of people and commerce through the Mohawk territory have been ignored. Moreover, through such acts as the flooding of a vast expanse of aboriginal territory in the creation of the St. Lawrence Seaway, the Government of Canada has done more to diminish the Mohawk economy than to support it.

### **Organized crime, terrorism and money laundering**

Tobacco smuggling is a gateway to other forms of illicit activity. The RCMP argues that most of the organized crime groups across the country involved in illicit tobacco are also active in other forms of criminality and a large proportion of the country's known criminal organizations are directly involved in illicit tobacco. Approximately 175 organized crime groups are active in illicit trade in Canada and many of these are permanently present in the 401 Corridor; among them are the Hells Angels, Italian and Asian mafias<sup>(08)</sup>.

Illicit proceeds from contraband sales in the US and Canada provide criminal organizations with the economic resources to continue to expand existing operations, invest in new activities, or channel funds to other organizations. Bulk cash smuggling and money laundering are integral to this activity. Canadian law enforcement has identified cases where US drug traffickers travel to Canada to place illicit proceeds in Canadian banks and money service businesses.

Both the RCMP and the US Bureau of Alcohol, Tobacco, Firearms and Explosives are concerned that tobacco smuggling is

*Illicit proceeds from contraband sales in the US and Canada provide criminal organizations with the economic resources to continue to expand existing operations, invest in new activities, or channel funds to other organizations ... Both the RCMP and the US Bureau of Alcohol, Tobacco, Firearms and Explosives are concerned that tobacco smuggling is being used to fund terrorism.*

being used to fund terrorism. One of the most notorious cases (although not implicated in cross-border trade) is the Lackawanna Six, a group of Yemeni Americans who were convicted of supporting Al Qaeda training camps and other terrorist activities through the sale of contraband tobacco products in upstate New York<sup>(09)</sup>.

While profits from legitimate activities can be used to finance terrorist networks and attacks, illicit profits are more difficult to trace and thus, have greater appeal to those planning illegal activities. Since 2001, a series of court cases in Europe and the United States have identified illicit tobacco as a source of funding for schemes originating in North Carolina, Michigan, and New York, and bound for such terror-linked organizations as the Kurdish PPK, the family of Saddam Hussein, and the Hezbollah<sup>(10)</sup>.

(08) U.S. Government Accountability Office. 2000. "Alien Smuggling: Management and Operational Improvements Needed to Address a Growing Problem." Report to Congressional Committees, GAO/GGD-00-103. Washington, DC: United States Government Accountability Office.

(09) See for example, <http://www2.canada.com/edmontonjournal/news/story.html?id=d4cac945-f05c-4cef-ab74-87b364682086>.

(10) Shellee, Louise and Sharon Melzer. 2008. "The Nexus of Organized Crime and Terrorism: Two Case Studies in Cigarette Smuggling." *International Journal of Comparative and Applied Criminal Justice* 32(1) Spring: 43-63



Photo: Shutterstock/Zoran Karapancev

The strongest linkages to international terrorism appear to be through the exploitation of the price differential between tobacco from low tax and high tax regions though tobacco products manufactured on aboriginal lands have not been implicated in these networks. Nevertheless, the perception by some consumers that the purchase of illicit tobacco is a benign activity means there is insufficient attention paid to identifying and prosecuting the ultimate beneficiaries of the contraband trade.

While the returns to small-scale distributors are relatively limited, so too are the needs of terrorist organizations: the overall tab to organize September 11 is reported to be between \$500,000 and \$2 million<sup>(11)</sup>.

### **Towards an integrated solution**

At least three major sets of interactions must be considered in any roadmap for change:

- The federal/sub-federal policy framework for tobacco consumption, control and taxation;
- The formal and informal relationships between Aboriginal and non-Aboriginal communities; and
- The security and commercial relationship between the United States and Canada, with the current impetus to 'build a better border' as its focal point.

These operational areas are challenging enough but the complexity is amplified by jurisdictional authority that is both fragmented and overlapping.

The contraband system as it is currently constructed is relatively stable, yielding a predictable pattern of returns to participants with relatively low levels of violence. Attempts to disrupt the system may trigger outbreaks of violence and social instability as displaced beneficiaries attempt to protect their interests. The message here is that ad hoc measures could make the situation worse rather than better.

At the same time, perpetuating the status quo is both irresponsible and dangerous. It effectively abrogates control of a wide swath of the Canada-US border to the organized crime factions that control the contraband trade. While the network is constructed to attract relatively little official attention and perpetuate the myth of tobacco smuggling as a victimless crime, its latent potential for use by high-level criminal and terror organizations render continued neglect an untenable option.

If a solution is possible, it must be found through a coordinated, comprehensive approach that reduces the incentives for illegal trade, increases the effectiveness of seizure and prosecution efforts, and helps to generate viable and legitimate economic options for the Mohawk community.

A first step must include the formation of a multi-jurisdictional committee of decision-makers from national, provincial, state, municipal, and First Nations communities with the necessary resources and authority for action. ✚

*Laura Dawson is President of Dawson Strategic and Stefania Bartucci is Research Director, Dawson Strategic.*

(11) Kleiman, Mark A.R. 2004. "Illicit Drugs and the Terrorist Threat: Causal Links and Implications for Domestic Drug Control Policy." Report to Congress. Washington DC, Congressional Research Service



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# Fundamental changes required in Canada's health care system

*The following is the executive summary of a paper entitled "Health Care Reform From the Cradle of Medicare" produced by former Saskatchewan Finance Minister Janice MacKinnon for the Macdonald-Laurier Institute.*

## **Janice MacKinnon**

As the oldest of the baby boomers turn 67 this year, the "fiscal squeeze" looms larger and larger. Providing health care for all Canadians while encouraging a robust economy will require a more efficient health care system with better methods of funding.

Changing the health care system to make it more affordable and effective will require addressing the three main structural problems built into the original design of the system: 1) the focus on hospitals and fee for service doctor services; 2) a funding model in which there is no relationship between users of the system and its costs; and 3) the extent to which federal-provincial structures and tensions have made reform more difficult.

A better medicare system requires changing the traditional 1960s hospital model by funding hospitals differently, diverting patients to alternative facilities and focusing more on a holistic, integrated approach to health. An emphasis on prevention and health promotion would save lives and money in the future. The current full coverage of hospitals and doctors does not leave funding for these areas, and furthermore, it diverts resources from areas like education and income support, which are crucial to supporting a healthy lifestyle and environment.

Most Western European countries have less expensive health care systems with better outcomes. Significant differences include linking patients and taxpayers to the costs of health care through user fees or co-payments; paying doctors a salary; and offering broader coverage for services like home care, physiotherapy, and prescription drugs. Additionally, health care is seen as one of many social services and is subject to reform, like the reforms Canada used in the 1990s to change other social programs.

In Canada, a co-payment could be implemented whereby individuals would pay for services used, up to a ceiling of 3 percent of income. The income tax system would be used to collect the revenue; thus, the administrative costs and complexity would be reduced and the sick should not be deterred from using the system since no fees would be collected when care is accessed.

Health care has been like a car with federal and provincial governments vying for control of the steering wheel. The federal government provides funding and sets standards, and the provinces have the power to design and administer the system and control spending. Controlling costs and making structural changes is complicated by the complexity



Photo: Creative Commons

of the federal-provincial relationship. Interprovincial co-operation will also be key to reducing costs.

Options such as long term care, private clinics, home care, and chronic care facilities should be given to offer faster, better, less expensive care than the emergency ward. Saskatchewan's health department established the Saskatchewan Surgical Initiative in 2010 to reduce wait times. Comparing the total cost of performing 34 procedures in the clinic versus the health department hospital reveals that it is 26 percent less expensive to use clinics than hospitals, and in all cases the clinics were less expensive.

Preserving the noble ideal of universal health care will require making fundamental changes in Canada's health care system. The changes suggested in this paper will make Canada's health care system more affordable and open the door to investments in other services and programs that are more important in promoting the overall health of the population. ❖

*Janice MacKinnon is a professor of fiscal policy at the University of Saskatchewan, a Fellow of the Royal Society of Canada, a former Saskatchewan Finance Minister, the author of three books and a public commentator on fiscal and political issues in Canada. In 2009 she was appointed to the National Task Force on Financial Literacy. In 2010 she was appointed Chair of Canada's Economic Advisory Council. In 2012 she became a Member of the Order of Canada.*

*To read the entire paper, visit: <http://www.macdonaldlaurier.ca/files/pdf/Health-Care-Reform-From-the-Cradle-of-Medicare-January-2013.pdf>*

# Selling Keystone to the Americans

*Donald Barry*

Canadian government and oil sands industry officials are rushing to Washington to bolster their environmental credentials. They are doing so amid hints that the Obama administration would approve construction of TransCanada Corp's controversial Keystone XL Pipeline designed to carry up to 830,000 barrels of bitumen per day from Alberta to Texas Gulf refineries, if Canada improved its record on climate change. The link comes as no surprise. More than 30 months ago, US ambassador David Jacobson told an audience in Calgary that "more needs to be done" to lessen the industry's footprint. But Ottawa, Edmonton and the industry ignored his warning. Instead, they tried to overpower environmental opponents with a competing narrative centred on energy security, jobs and dubious ethical oil claims. President Barack Obama denied the initial application for Keystone, which crossed Nebraska's ecologically fragile Sand Hills and Ogallala Aquifer, but endorsed construction of the southern leg of the pipeline beginning in the Midwest oil hub of Cushing, Oklahoma. Increasingly, debate about TransCanada's revised proposal for the northern leg that skirts the Sand Hills and most of the aquifer is turning on the environmental consequences of oil sands exploitation itself. The Canadians are scrambling to catch up.

Keystone supporters are encouraged by a new US State Department environmental assessment which argues that it is "very unlikely" that pipeline spills will harm Nebraska's water resources. The report estimates that, on average, oil sands operations create 17 percent more greenhouse gas emissions on a well-to-wheels basis than crude oil produced in the United States. But it contends that approval or rejection of the pipeline would have little effect on the rate of oil sands development, and thus carbon emissions, given the availability of other pipeline and rail alternatives.

Even so, oil sands producers face major transportation hurdles that have resulted in a sharp drop in the price of Canadian oil in the captive US market, wreaked havoc upon the Alberta government's budget, and led some firms to pare back plans to expand their oil sands projects. Proposals for other pipelines, to eastern Canada and British Columbia, which are also contested, offer no prospect of quick relief, even if they are approved. Pipelines are more efficient and pose fewer environmental risks than rail transportation, but they are not without problems. Heavy oil spills are difficult to remediate. Portions of Michigan's Kalamazoo River remain closed after an Enbridge Inc. pipeline ruptured in July 2010, leaking 20,000 barrels of oil sands crude. Thus far the cleanup has cost more than \$800 million USD and could reach \$1 billion. (TransCanada has agreed to take out \$200 million in liability insurance to deal with possible spills in Nebraska.)

Federal officials argue that Canada is moving in tandem with the United States to meet their common Copenhagen Accord target of reducing greenhouse gas emissions by 17 percent from 2005 levels by 2020. While the United States appears to be on course to meeting the goal, Canada lags behind. The Harper government has joined the Obama administration in improving fuel standards for the trans-

portation sector and is ahead of it on plans to reduce emissions from coal-fired electricity plants, although US reliance on electricity generated by coal is declining. However, as the Pembina Institute's Clare Demerse points out, "The US doesn't really have an oil sands sector, which means that harmonizing with the US won't solve Canada's climate change problem."

Although the industry accounts for only seven percent of Canada's greenhouse gas emissions, it is the fastest growing source. Oil sands development is an energy intensive process that generates up to three times more carbon pollution than conventional oil operations. The industry has reduced its emissions intensity by 26 percent since 1990, but its overall emissions have tripled as a result of the growth in production. Current output, which stands at 1.7 million barrels per day, could double by 2020 and reach 5.2 million by 2030, with a corresponding rise in emissions. Pipelines are a crucial part of the industry's expansion plans. A recent report by Ernst & Young observes that "While in the short term it is expected that crude oil transport by rail will increase because of the ability to use existing rail infrastructure, there is a longer-term need for increased investment in the construction of new pipelines."

Currently, there are no federal regulations covering greenhouse gas emissions for the oil and gas sector. Ottawa is under attack for withdrawing from the Kyoto Protocol and scaling back environmental programs. The Alberta government maintains an intensity-based regulatory approach that aims to lower emissions by 50 megatonnes per year by 2020. The main instruments are a \$15 dollar per tonne carbon tax on large emitters (with the proceeds placed in a clean technology fund for clean energy undertakings) and a \$2 billion fund for carbon capture and storage projects. However, annual reductions since 2007 have averaged only 5.3 megatonnes. Edmonton has conceded that it is "not on the right trajectory" to achieve its goal.

In 2010, a study by scientists from the University of Alberta challenged long-standing government and industry claims that higher than normal levels of pollutants downstream from oil sands sites are a naturally occurring phenomenon. Follow-up reports revealed serious flaws in existing oil sands monitoring, prompting Ottawa and Edmonton to announce plans for a comprehensive monitoring agency, which will not be fully operational until 2015. Meanwhile, evidence of the pollution effects of oil sands operations continues to accumulate. A new study by scientists from Queen's University and Environment Canada has found that levels of contaminants in lakes up to 90 km away from oil sands are 2.5 to 23 times higher than they were when development got under way in the 1960s. Although concentrations are low, they will increase as production expands, with "unknown" ecological consequences.

Ottawa says that long-awaited oil and gas regulations are nearing completion. Edmonton, too, has expressed willingness to pursue new environmental initiatives, including a higher levy on carbon emissions. There is a lot riding on their decisions. The fate of the Keystone Pipeline may well depend upon them. 📍

*Donald Barry is a professor emeritus of political science at the University of Calgary.*

# Equalization reform: Promoting equity and wise stewardship

*The equalization program, which aims to address fiscal disparities among provinces through transfer payments to those with below-average tax bases, comes up for renewal in 2014. Below is the executive summary of an MLI study on equalization that was released on April 4, 2013.*

**Robert P. Murphy & Brian Lee Crowley**

How do provinces with varying levels of revenue provide access to the same level and quality of health care, education, and welfare? The federal equalization program aims to make this possible through transfer payments to provinces with below average tax bases. The equalization formula measures each province's ability to raise revenue and then makes a compensatory transfer to provinces that fall below the average.

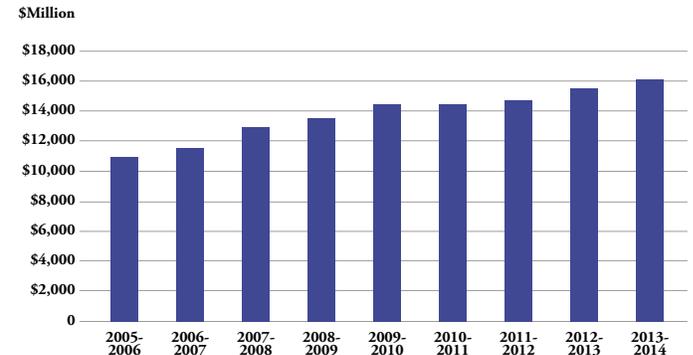
The method used to determine a province's fiscal capacity currently considers more than two dozen tax and resource revenue bases, including personal income taxes, business income taxes, consumption taxes, property taxes, and up to 50 percent of natural resource revenues. Currently, "natural resources" includes nonrenewable resources (NRNR), which violates the spirit of the program, creates perverse economic incentives and, we argue, should be removed.

There is a widespread misconception that resource rich provinces capture all the benefits from the development of their resources. After all, the province receives substantial royalty payments in exchange for allowing companies to exploit its natural endowments, such as oil. However, between a third and up to nearly half of total government revenues from natural resources accrue to the federal government through various federal taxes.

An ideal equalization formula would completely exempt provincial nonrenewable resource royalties if the provincial government uses this money to provide for a sustainable, long-term flow of income for its residents rather than spending on current services. For example, a province might use resource royalties to pay down outstanding debt, allowing it to lower taxes or to allocate other tax receipts to provide services (rather than servicing the debt). Another possibility is for a province like Alberta to invest its royalties in a "heritage fund", effectively transforming its wealth from a narrow base of physical assets (such as oil sands) into a diversified collection of financial assets. Although contributions to such a heritage fund would not be included in the equalization formula, the dividend or interest income generated by such a fund could finance a perpetual flow of government services, and therefore would be included in the calculation of a province's fiscal capacity.

The correct reason to exclude NRNR revenues lies in a better understanding of what we should be trying to equalize, namely the income of the provinces, not total revenues. From an accounting perspective,

Equalization payments



nonrenewable natural resource revenues are not income at all. They are the transformation of one type of asset into another.

Again using Alberta as an example, the royalty revenue derived from selling a barrel of oil ought not to be seen as the creation of new income, but rather the conversion of an existing asset (the oil) into another type of asset (cash). When these revenues are included in a province's fiscal capacity, the formula overstates the income of resource rich provinces and creates an incentive immediately to spend rather than to invest the revenue. In other words the system encourages provinces to treat their assets as if they were income.

These proposed changes to the treatment of nonrenewable natural resource royalty revenues more closely reflect the spirit of the equalization program. Our suggested framework would also help provincial governments avoid excessive reliance on volatile resource revenues. As investment in Canadian natural resources grows and generates more profit, it is vital that each province use the revenues to ensure longterm prosperity. 

*To read the entire study, visit the Macdonald-Laurier website.*

*Robert P. Murphy currently runs Consulting by RPM, in Nashville, TN, and is the Senior Economist for the Institute for Energy Research, a D.C.-based think tank. Murphy has published several books for the layperson on economics, including *The Politically Incorrect Guide to Capitalism* (Regnery, 2007) and *Lessons for the Young Economist* (Mises Institute, 2011). He is also the author of numerous studies and peer-reviewed articles, including *Taxifornia: California's tax system, comparisons with other states, and the path to reform for the Golden State* (with Jason Clemens, Pacific Research Institute, 2010).*

*Brian Lee Crowley has headed up the Macdonald-Laurier Institute (MLI) in Ottawa since its inception in March of 2010, coming to the role after a long and distinguished record in the think tank world. He was the founder of the Atlantic Institute for Market Studies (AIMS) in Halifax, one of the country's leading regional think tanks. He is a former Salvatori Fellow at the Heritage Foundation in Washington DC and is a Senior Fellow at the Galen Institute in Washington. In addition, he advises several think tanks in Canada, France and Nigeria.*



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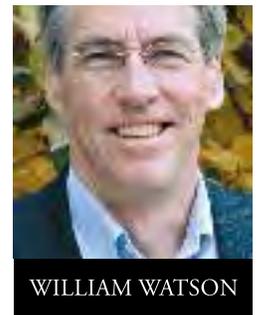
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# The two pension crises: Reality versus illusion

*Ian Lee and Vijay Jog*

Canada's pension problem was first understood 2,000 years ago by the philosopher Augustine when he prayed, "God give me chastity but just not yet".

Canadians want generous pensions — fully indexed with the right to retire at 55 — but with modest annual pension premium contributions. But, according to Statistics Canada, the annual savings rate by Canadians as a percent of income has slowly declined to the present 4 percent of current incomes (excluding capital gains). This has led to interminable pension debates and the notion of a "pension crisis".

We believe the pension "crisis" has two very different dimensions: one is real while the other is only apparent.

The very real pension crisis in Canada concerns defined benefit (DB) plans. According to the Aon Hewitt annual survey of pension plans, 97 percent of DB pension plans across Canada are "under

water" with deficits of approximately \$400B. Indeed, during the past 3 years, while pension assets increased by 20 percent, pension liabilities increased by 50 percent mostly due to record-low interest rates.

A second important longer-term contributor to the increasing deficits in defined benefits plans is that we are living much longer today than when these plans were first designed. According to Statistics Canada, today an adult will live an average of 20.2 years upon reaching 65 years of age. Moreover, as Statistics Canada has noted, "between 1926 and 2005, males gained 20 additional years of life expectancy, while females gained close to 23 years of life expectancy" (i.e., from approximately 62 to 85).

When pensions were first developed, it was expected that recipients would collect for relatively very short periods of time before dying. Today, it is the opposite. In the Don Drummond Report presented to the Ontario Government it was noted that the average teacher in Ontario is employed for 29 years while collecting a pension in retirement for 30 years. In the unintended ironic words of

President Obama, “the math does not add up.”

These statistics reveal the fundamental structural problem for defined benefits pension plans which are expected to provide a guaranteed annual pension income to the worker in retirement based on a predetermined formula of a set number of years and annual contribution premium rates without regard to whether sufficient monies are actually earned to completely fund the pension. In the private sector, pension deficits in defined benefits pension plans place future pensioners at risk there will be insufficient funds to pay the pension promises.

This crisis has caused many firms in the private sector to replace defined benefit pension plans with defined contributions pension plans to eliminate the risk of pension deficits.

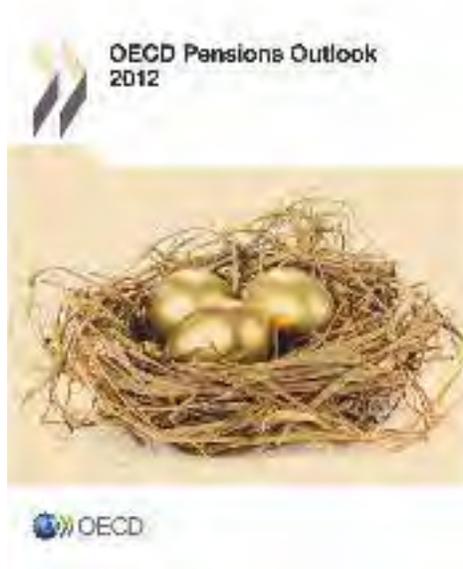
In the public sector, the problem of DB pension plans is more severe due to a sense of complacency. For example, the federal pension deficit is \$270B according to the CD Howe Research Institute. Worse, the problem of underfunded public sector defined benefits pensions also exists at the provincial and municipal levels. The taxpayers of Canada are responsible for the eventual payment of all these underfunded public pensions.

It is not possible to escape the conclusion that one critically important reform to address greatly extended longevity and seriously reduced investment returns is to extend the minimum pensionable age to at least 65 and probably above that as suggested by the Organization for Economic Co-operation and Development (OECD).

Let us now examine the second — alleged — pension crisis. Canadians have been told repeatedly by the Canadian Labour Congress, New Democratic Party, Canadian Association of Retired Persons and various pension experts such as Keith Horner, Bernard Dussault, Keith Ambachtsheer and Robert Baldwin, that Canadians are not saving enough for their retirement and thus will face difficult times in their retirement years, unless contributions to the Canada Pension Plan are increased.

In a variant of Marx’ famous phrase that workers must be “forced to be free”, these organizations and individuals advocate that Canadians must be forced to save significantly more than they are saving now through a major expansion of the Canada Pension Plan (CPP), often characterized as “big CPP”.

These proponents citing behavioural economists — argue that the model of rational economic behavior that assumes individuals make decisions that will reflect their needs and interests — is badly flawed as Canadians, it is argued, are clearly saving insufficient amounts to provide an adequate pension in retirement.



The most aggressive proposal envisages the elimination of all private sector pension plans and RRSPs with one big CPP that would require contribution rates of approximately 15 percent by employee and employer.

There are serious flaws in the assumptions of these critics concerning the savings behavior of Canadians. They focus only on the amounts saved and invested in what are formally classified as pension funds and related pension savings vehicles such as RRSPs but ignore other forms of savings (i.e., mainly real estate wealth dominated by primary and secondary housing and land).

More specifically, when one examines the Statistics Canada Daily for the *National Balance Sheet and Financial Flows Account, 2012, Table 2 — Households and non-profit institutions*, one learns that Canadians own gross assets of approximately \$8.8 trillion.

When the infamous indebtedness of Canadians of \$1.7 trillion (of which 2/3 is mortgage debt) is removed, the personal net worth of Canadian households is approximately \$7.1 trillion or \$199,700 per capita.

When the data is deconstructed it becomes even more interesting. According to Statistics Canada, approximately half of Canadians’ gross assets are held in primary and secondary residences and raw land of \$3.5 trillion while \$1.6 trillion is in registered pension plans with the remaining \$3.7 trillion invested in cash, mutual funds, equities etc.

Now we can challenge the claim by CPP pension advocates that Canadians are not saving enough. This argument reveals a myopic understanding of savings and wealth. All forms of wealth include a savings component and a capital gains component and they are included in real estate, financial investments, business ownership and pension investments.

In fact, Canadians have \$7.1 trillion in net worth and not the \$1.6 trillion in pension assets claimed by pension critics. And more importantly, principal residence assets can be transformed into tax free income that can be used upon retirement through “downsizing” to a smaller less expensive property thereby increasing retirement income.

For example, Kingston and surrounding Eastern Ontario communities have seen growth from the retirement of people from Ottawa selling and moving to these less expensive communities.

Alternatively, Canadians can stay in their houses and rely on innovations such as reverse mortgages where they can make the seemingly illiquid investment in the house into a consumable annuity.

It is likely for these reasons that home ownership has steadily increased over the past 50 years to the present 69 percent of Canadians.



Photo: Shutterstock

The exclusion of non-pension investment personal wealth from determinations of pension adequacy has been recognized by Statistics Canada in a very important paper, *Income Adequacy in Retirement* by John Baldwin et al: “income as normally measured captures only part of what is available to seniors if households possess assets, which in retirement are not being used to generate measured income ... Indeed, when after-tax estimates are used, the potential income per adult-equivalent in senior households exceeds the income of households headed by younger adults”.

Moreover, according to the *Statistics Canada 2008 Survey of Household Spending*, 43 percent of Canadians had no mortgage while the mean age of those Canadians mortgage-free was 62. In other words, significant amounts of home equity are (logically) skewed towards older people for they have had much longer periods of time for the property to increase in value and to reduce or eliminate debts. And it is older people who can and do use their home equity during their retirement.

It will be argued that many in the bottom quintile do not own their own home and thus cannot avail themselves of home equity. While this is indeed true, researchers such as Professor Kevin Milligan have shown that the bottom quintile do better in retirement due to OAS, GIS and CPP as their pension income is typically higher than the minimalist income earned in working years by the bottom quintile.

This is validated by the *OECD Pensions at a Glance* that showed only 5 percent of elders in Canada were below the poverty line (a fact noted by NDP Leader Jack Layton in the 2011 election campaign). Moreover, Canadians in the lowest quintile would be hard pressed to save a higher percent of their income when they may not need more than the payments they would receive from OAS, GIS and CPP.

Some may argue that it is unfair to expect Canadians to sell their home or even downsize to contribute to their retirement income or consider a reverse mortgage. Yet the argument for a larger CPP has been grounded on the assumption that Canadians are not saving enough for retirement. This argument fails to recognize that most forms of wealth — e.g. homes, pensions, financial investments and businesses — can ultimately be converted into cash that can be used to provide a retirement income. The wealth classification “pension savings” is not intrinsically financially or morally superior to wealth classified as “real estate equity” or “mutual funds” or “GICs” or “business ownership.”

Yes, there is a pension crisis in Canada measured by defined benefits pension deficits caused by increasing longevity, decreasing rates of investment returns and retirement age policies that are increasingly unsustainable. And solutions being discussed include transformation to defined contributions, increased premiums and most importantly extending the minimum age of pension eligibility to at least 65 across the public and private sectors and more likely to the new OAS standard of 67.

However, the frequently alleged inadequate savings by Canadians is simply not supportable if we include — as we should — all forms of the \$7.1 trillion in personal net worth held by Canadians. ✚

*Ian Lee has taught the capstone Strategic Management course since 1988 in the Spratt School of Business at Carleton University and across Central and East Europe and other developing countries including China, Iran, Ukraine. Dr. Lee was previously employed in the financial services sector.*

*Vijay Jog is the Chancellor Professor at the Spratt School of Business at Carleton University. Dr. Jog has been published extensively in national and international journals, and has over one hundred articles, monographs, and books to his credit. He also consults globally for both public and public sector organizations.*

# Sustainable, ethical management of extractives can help reduce poverty

*Julian Fantino & Jorge Humberto Merino Tafur*

The mining, oil and gas sectors have been instrumental not only in providing thousands of good paying jobs but also generating revenues that help to build infrastructure, support local businesses and spur innovation.

As highlighted at the recent “Maximizing Extractives for Development” Conference, hosted by the Government of Canada and the World Economic Forum, the sustainable and ethical management of extractives can also help pull millions of people around the world out of poverty and provide basic essentials such as health care and education.

In 2011, mining and energy represented 70% of Peru’s exports, and mining alone made up 12% of the country’s gross domestic product at current prices. Over the past 12 years, Peru’s mineral exports have increased eight and a half times. Today, Peru is the seventh largest economy in Latin America and the hub of Canadian extractive presence in the region. This type of growth is not only impressive, it is nearly unprecedented.

While Peru has emerged as a “middle income country”, it still faces significant development challenges, particularly in rural areas. This is why inclusive growth is a priority for the Peruvian Government of President Ollanta Humala. This is also why Canada, through the Canadian International Development Agency, has been working with Peru to increase the government’s capacity to manage its natural resources in a sustainable way, to the benefit of all Peruvians. Both of our governments agree that developing extractive industries is not just about generating short-term revenues. It is about using those revenues to invest in infrastructure and essential services, such as education, that set people, communities and countries on a path towards sustainable prosperity.

The key starting point for a sustainable extractive sector that benefits local communities is effective governance. Experience shows that a responsibly managed sector — one that includes clear and well implemented environmental rules and regulations, safe working conditions, and an efficient royalties regime— can create jobs, spur investment, and generate revenues for social services. However, there are no second chances with non-renewable resources. If managed poorly, the extractive sector can fuel corruption, cause social unrest, undermine development and inflict significant environmental damage.

This is precisely why Peru has established a national office for dialogue for development and inclusion through democratic authorities that promotes consensus-building to prevent conflicts around the sector. It also approved a law on prior consultation that will help better engage communities. Peru is also looking to build on its existing



royalties regimes and find even more efficient ways to distribute its mining, oil and gas revenues to regional and municipal governments, so the benefits can reach all people. To further accountability and good governance, Peru has also achieved full compliance with the Extractive Industries Transparency Initiative, of which the Government of Canada is a leading proponent. The initiative aims to reduce corruption by publishing the amounts of money transferred between extractive companies and governments.

Canada and Peru’s successful cooperation has allowed the Peruvian government to create strong checks and balances in the extractive sector. Peru has strengthened its policy and regulatory frameworks, and successfully complied with international reporting standards. The stability created as a result has led to significant increases in foreign direct investment, including by many Canadian firms. Most importantly for Peruvians, it has led to the creation of thousands of local jobs and greater revenues for the government to deliver basic services to all Peruvians.

It is no secret that Canada has a wealth of expertise in managing natural resources. This includes leading global mining, oil and gas firms and strong governance and oversight that balances prosperity with sustainability. As a resource-rich country, Peru can and should use its resources to maximize its economic development, with a particular emphasis on ensuring those most in need see a tangible benefit from this new-found wealth. Given these facts, it is clear that Peru and Canada are natural partners in this sector today and for the future. ✦

*Julian Fantino is the Minister of International Cooperation for Canada, and Jorge Humberto Merino Tafur is the Minister of Mines and Energy for Peru.*

# The MLI Leading Indicator

*"Look a little ahead, my friends."*  
SIR JOHN A. MACDONALD

MARCH 2013

A MACDONALD-LAURIER INSTITUTE PUBLICATION

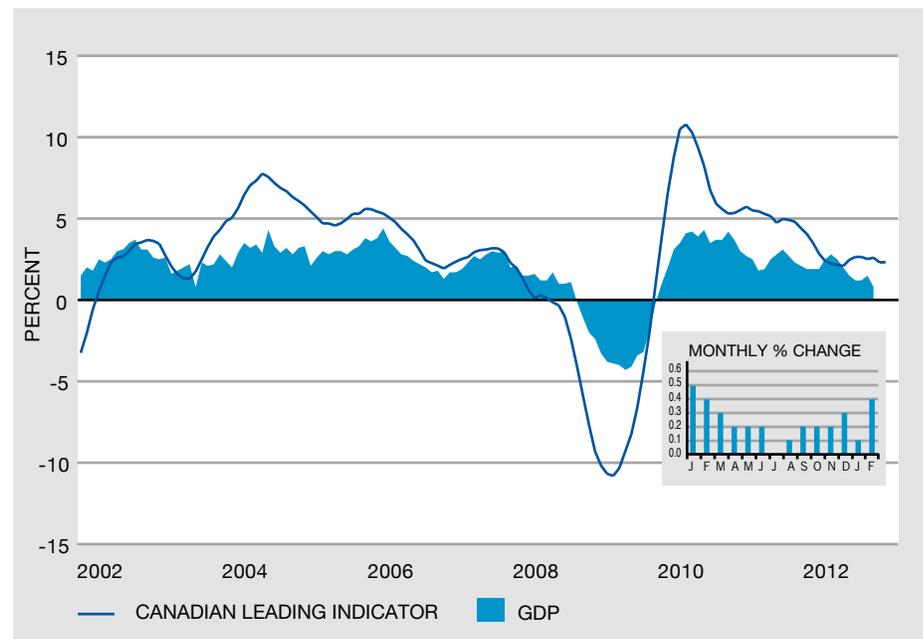
VOLUME 2 ~ ISSUE 3

La version française suit la version anglaise

**T**he Macdonald-Laurier Institute composite leading index accelerated noticeably in February, rising 0.4%, its largest increase in twelve months. The advance reflects the transitory nature of some of the forces that restrained growth at the turn of the year, and an improving tone in the US economy. This leaves growth in Canada positioned to strengthen as the year unfolds.

## Leading Indicator February 2013

FIGURE 1 Year over year percent change



The leading indicator for the United States continued to strengthen markedly early in 2013, rising 0.4% in February. As recently as late last summer, the US index was declining. The turnaround was led by further gains in housing and improved credit conditions, as households easily absorbed the effect of fiscal tightening by the federal government. While personal income dipped in January as taxes rose, household net worth has recovered almost all of its losses in 2007-2009, thanks to gains in the stock

market and house prices in recent months.

The upturn in US demand was reflected in a 2.6% surge in new orders for durable goods manufactured in Canada. The pick-up in the US housing market has already shown up in improving demand for Canadian lumber, with sales by the wood industry up 18% in the past year, the most in the manufacturing sector. Higher orders in manufacturing have not been reflected in labour demand, as the average workweek

and employment in factories have remained little changed.

Financial market conditions remained a major source of strength in the leading index. The Toronto stock market rose 0.8%, its fifth straight increase. The real money supply also continued to expand steadily.

The housing index posted the largest drop of any component, falling 3.0%. Most of this decline originated in lower housing starts, as existing home sales have levelled off so far this year. Commodity prices edged down 0.2% for the second month in a row. Claims for employment insurance rose 0.7%, a negative signal about labour market

conditions despite no change in the unemployment rate in the first two months of the year.

*The analytical model underlying this MLI Leading Indicator is the creation of Philip Cross Economics and is used here with his permission.*

## Leading Indicators

	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
<b>Canadian leading indicator (January 2002=100)</b>	<b>132.8</b>	<b>133.0</b>	<b>133.2</b>	<b>133.6</b>	<b>133.8</b>	<b>134.3</b>
% change	0.2	0.2	0.2	0.3	0.1	0.4
Housing index (January 2002=100)	102.5	101.0	97.8	96.0	93.8	91.0
% change	-2.7	-1.5	-3.2	-1.8	-2.3	-3.0
US Conference Board leading indicator (2004=100)	95.6	95.6	95.8	95.9	96.2	96.6
% change	0.1	0.0	0.2	0.1	0.3	0.4
<b>FINANCIAL</b>						
Money supply, M1 (millions, 2002) <sup>1</sup>	550,658	553,023	555,243	558,056	560,936	566,545
% change	0.6	0.4	0.4	0.5	0.5	1.0
S&P/TSX stock price index (1975=1000)	11,808	11,990	12,119	12,273	12,420	12,521
% change	0.0	1.5	1.1	1.3	1.2	0.8
Interest rate gap	-2.02	-2.03	-2.01	-2.00	-2.02	-2.03
change <sup>2</sup>	0.01	-0.01	0.02	0.01	-0.02	-0.01
<b>MANUFACTURING</b>						
Average workweek (hours)	37.5	37.5	37.4	37.5	37.4	37.4
% change	-0.3	0.0	-0.3	0.3	-0.3	0.0
New orders, durables (millions, 2002)	26,400	26,103	26,321	26,626	27,312	na
% change	0.8	-1.1	0.8	1.2	2.6	na
Commodity price index, all (US dollar terms)	626.1	625.9	632.0	632.4	631.0	630.0
% change	0.0	0.0	1.0	0.1	-0.2	-0.2
Employment insurance claims received	230,264	231,252	231,114	230,554	232,224	na
% change	-0.1	0.4	-0.1	-0.2	0.7	na
<b>Unsmoothed version</b>	<b>133.6</b>	<b>133.3</b>	<b>133.5</b>	<b>134.0</b>	<b>134.8</b>	<b>135.8</b>
% change	0.1	-0.2	0.2	0.4	0.6	0.7

<sup>1</sup> Deflated by the Consumer Price Index for all items.

<sup>2</sup> First difference.

*The Macdonald-Laurier Institute's monthly Leading Economic Indicator series provides unique and valuable insights into the future course of the Canadian economy – giving advance warning of recessions and upturns. The next release date is April 30, 2013.*



# A 'Made in Canada' eco-energy strategy

*We can be a world leader with a 'made in Canada' eco-energy strategy. There is a wide suite of policy ideas ranging from carbon tax to cap-and-trade already in place. There are practical projects around carbon sequestration, biomass and tidal power as well as wind and solar. We need to knit these initiatives together. Base policy on best scientific knowledge, take hard economic-based decisions about outcomes but recognize practical technology takes time, money and experiment to mature. Learn lessons from the Boreal Forest Accord. President Obama has asked Canada to show 'progress' on climate change. We can meet or exceed the US challenge. Draw on the considerable progress made by the provinces and at the same time push the US to act in designating hydro as a clean energy source.*

**Colin Robertson**

**I**s the Canada-US ecological-energy glass half empty or half full? Read the headlines around the XL pipeline debate and one might despair over progress in meeting the challenges of climate change.

Copenhagen was a low point for Canada. Winning 'Fossil of the Year' from the not entirely reliable Climate Action Network garnered the media headlines, but the real debacle was the visible, deep divide on climate change policy between provinces and between the prov-

*Arguably, the Canadian approach to developing its energy strategy is also one of 'all-of-the above' given government support for biofuels, funding energy technologies, and, for example, loan guarantees for the Newfoundland-Nova Scotia underwater electricity linkage.*

inces and the federal government. Seven years later the Harper Government, notwithstanding its base in energy-rich Alberta, has still not achieved a national energy strategy.

But beneath the headlines there is a lot of activity, a lot of innovation and increasingly, results. Provincial governments have taken a leading role, often working regionally with US states. In the oil patch ecological stewardship is taken seriously with active efforts at sharing best practices and in the development of new technology.

More could and should be done by the two national governments working together. But even here, there is progress. With a new team in the Second Obama Administration and a new pragmatism in Ottawa, there is renewed hope for 'green shoots.'

## To fail would be to defy our history

For over a century, Canada and the United States were leaders in sensible ecological stewardship. The Boundary Waters Treaty (1909) was a remarkably far-sighted agreement recognizing that the watersheds along our boundary — rivers, lakes and streams — required joint stewardship for mutual benefit. Article IV of the Boundary Waters Treaty prohibited pollution by either country, making it one of the world's first environmental agreements. For over one hundred years the binational International Joint Commission has acted for both nations and it remains a model for collaborative dispute settlement and resolution. It works.

### Other agreements followed

The Great Lakes Water Quality Agreement (1972) and subsequent updates (1978, 1987, 2012) set out goals and guidelines for restoring and protecting the chemical, physical, and biological integrity of the Great Lakes Basin. Joint effort, especially by the adjacent states and provinces coupled with additional agreements, has achieved significant results.

Twenty years after the signature of the Acid Rain Agreement (1991), emissions causing acid rain have been cut in half and emissions causing smog have been cut by one-third in the region covered under this agreement.

In February 2009, during a visit to Ottawa, President Obama launched the 'clean energy dialogue' designed to expedite the transition to a low-carbon economy. Our emission reduction targets are now aligned and we are pursuing North American standards for vehicles. Working groups on Carbon Capture and Storage (CCS), the Electricity Grid, and Clean Energy Research and Development (R&D) are making progress with annual reporting of results.

A combination of factors — different perspectives on the right balance between the environment and energy, antagonisms over climate change and the XL pipeline accentuated by personality differences — hampered progress.

### Both national governments have had to recalibrate

The perception that we are on the wrong side of the environmental fence doesn't jibe with where Canadians tell pollsters they want their government to be. Most do not think the Harper Government is doing a good job in protecting Canada's environment.

The 'Moses' of the conservative movement in Canada, former Opposition Leader Preston Manning, recently encouraged Canadian Conservatives at his namesake convention to make the environment a 'sword' rather than a 'shield' and become "more positive and proactive." Conservation, he argued, is integral to conservatism.

President Obama's commitment to action on climate change remains steadfast and he reiterated his commitment in his Second Inaugural Address:

"We will respond to the threat of climate change, knowing that failure to do so would betray our children and future generations. Some may still deny the overwhelming judgment of science, but none can avoid the devastating impact of raging fires, and crippling drought, and more powerful storms."

### The challenge is to match the rhetoric to performance

Lessons were learned in the first term. The failure to enact climate change legislation underlined the need for better congressional relations, especially within the Democratic caucus of both the House and Senate. There was a realization that the road to renewables would not be easy and, as the Solyndra bankruptcy illustrated, due diligence had to be rigorously applied or public and market confidence would be jeopardized. There was also the reality of no new money: government had moved from stimulus to austerity.

Meanwhile, technological innovation — fracking and horizontal drilling — has helped create a fossil fuels boom.

As a result, the Obama Administration has adopted an "all of the above" energy policy encompassing oil and gas, as well as greener energy sources. The International Energy Agency predicts the US will become the world's largest oil producer by 2020.

In mid-March, President Obama released a "Blueprint for a Clean and Secure Energy Future," which includes renewable energy, smart grid, 'carbon-free' nuclear power and an Energy Security Trust. There is much in this blueprint on which Canadian and American policymakers can make common cause.

An immediate and useful first step would be to develop a North American Outlook document as recommended by US energy expert Joe Dukert during an Ottawa visit in January. As Dukert put it:

"It's a necessary preliminary to the most fruitful discussion of many subjects — not only including shale oil and shale gas, but also cellulosic ethanol, carbon capture and sequestration, and the limited — yet significant — role of renewable energy sources such as hydro, wind, and solar over the next 20 or 30 years. The data are available, of course — including emissions of carbon dioxide; but reconciling definitions and units of measurement makes it a task of several months at least. To overcome various barriers, it might be an appropriate project for joint public-private development — perhaps with the North American region of the World Energy Council taking a hand. Projections of various scenarios could help guide planning in each country. And it could demonstrate a basic truth in North America: The whole is somewhat different — and probably more effective — than its constituent parts."

Arguably, the Canadian approach to developing its energy strategy is also one of 'all-of-the above' given government support for biofuels, funding energy technologies, and, for example, loan guarantees for the Newfoundland-Nova Scotia underwater electricity linkage.

We are in alignment with the US on our Copenhagen commitments.

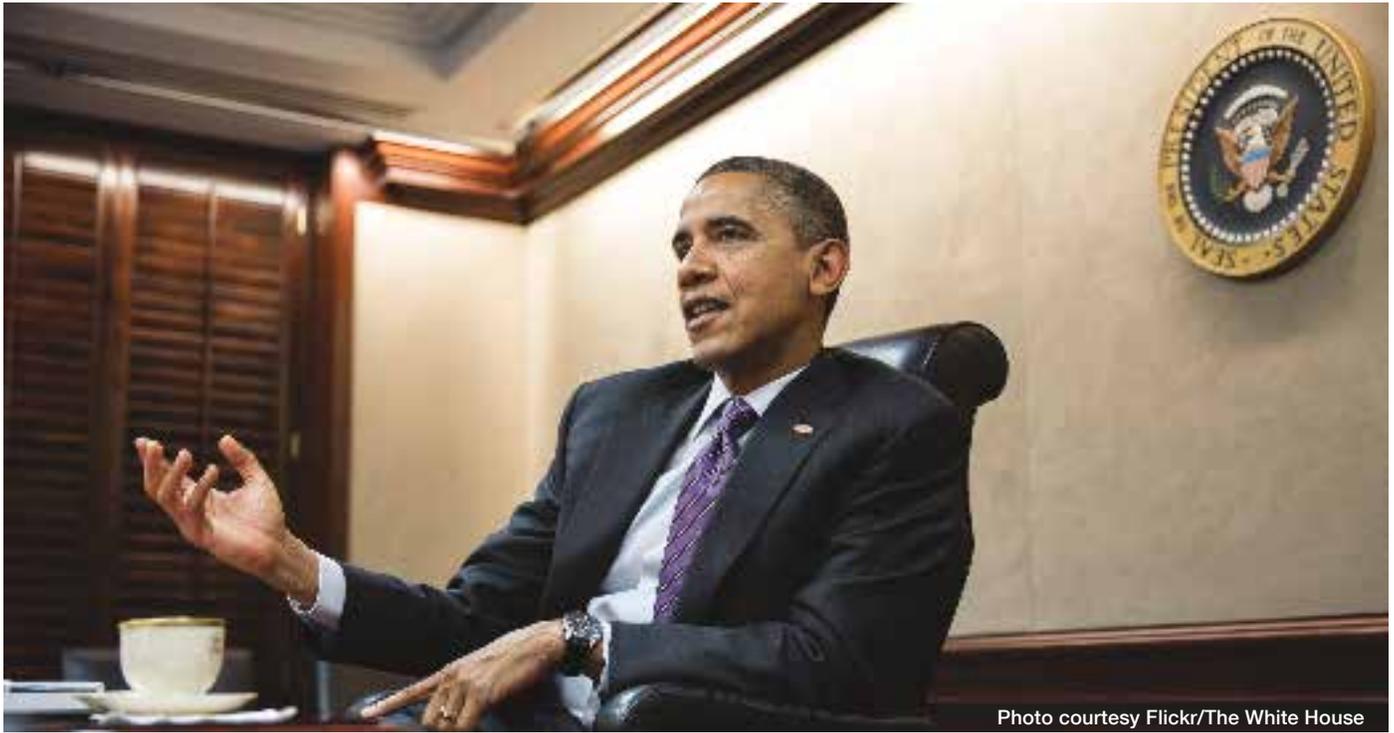


Photo courtesy Flickr/The White House

Our vehicle emission standards are in tandem and as former Environment Minister, now CIBC vice-chair, Jim Prentice argues, we should build on this foundation to achieve full-on harmonization of the transportation grid and bring continental standards to the rail and aviation industries.

We are ahead, although not pure, on national coal standards that will see the eventual phase-out of coal-generation.

Our weak link is oil and gas regulations, now promised for mid-year. The regulations will help Canada meet its environmental commitments of cutting greenhouse gas emissions 17 percent from 2005 levels by 2020.

To meet this objective we need new ideas and practical innovation.

For ideas, there is a treasure trove of climate change study in the archive of the National Round Table on the Environment and Economy. Established by Brian Mulroney in 1988, with now-Governor General David Johnson as its first chair, it was unceremoniously axed by the Harper Government in 2012 for reasons that make no sense. For as their now-defunct website observed: “Our desire for a modern economy and our duty to a sustainable environment are not mutually exclusive — they are mutually reinforcing. Indeed, one requires the other.”

Under the leadership of its last CEO, David McLaughlin, it produced a series of superb practical, science-based studies that won the praise of environmentalists. Sadly, all their work is in a kind of cyber zombie-



zone, awaiting a promised new home with Library and Archives Canada.

The private sector has also been active. The Canadian Council of Chief Executives has produced a series of reports, notably their 2012 submission to the Council of the Federation which articulated an energy approach around ten elements. There has been a beehive of activity by industry, in collaboration with governments and the environmental NGOs through various fora including the Banff Dialogue and Winnipeg Consensus. Notable is the work of the Energy Policy Institute of Canada and their framework strategy (August, 2012) under the leadership of now-Senator Doug Black.

Companies in the oil patch are increasingly using shadow carbon pricing. In terms of practical development that is materially advancing environmental stewardship, the Canada’s Oil Sands Innovation Alliance (COSIA) of a dozen participating companies capture, develop and share their innovation and best practices focusing on four areas — tailings, water, land and greenhouse gases. Their work is making a measurable difference and is a model for industry.

The climate change debate has been loud and divisive. Arguments have been based more on emotion and half-truths. Science-based evidence has been tarnished by personal prejudice. A public information campaign on energy and the environment is necessary so myth can be separated from fact. Government is not well-placed to lead this campaign because too often its efforts are perceived as propaganda. The public also needs to understand the current regulatory

system and how it serves to protect their interests.

The NGOs have considerable experience in advocacy. Perhaps the most dispassionate, neutral and most importantly, readable, is Pollution Probe. Look to their superb Primer series, which has covered subjects like water, emissions trading, climate change, acid rain, fuel efficiency and energy systems. Look to them to help with public education.

For practical inspiration, look to the innovative work on energy and the environment taking place at the provincial level. The provinces are incubators for change and their Council of the Federation is now working to update their 2007 Shared Vision that addressed conservation, supply, demand and infrastructure.

Led by then-Premier (now High Commissioner to Britain) Gordon Campbell, British Columbia has had a working carbon tax since 2008. Originally set at \$10 per ton of carbon it has risen by \$5 per ton each year thereafter, translating into a roughly 9 cent tax on a gallon of gasoline, rising 5 cents per gallon each year.

Calling it a ‘winner’, the Economist said it “has shown the rest of Canada, a country with high carbon emissions per head, that a carbon tax can achieve multiple benefits at minimal cost.” A recent study (2012) by the University of Ottawa’s Sustainable Prosperity Group reckons that British Columbia’s use of refined petroleum products as well as greenhouse gas (GHG) emissions has dropped sharply (an estimated 15 percent) compared to the rest of Canada.

Alberta has a carbon compliance market designed to reduce emissions by 12 percent in carbon intensity per production unit. Companies have four options to meet targets: efficiency improvements; purchase of Alberta-based carbon offsets; payment of \$15-a-tonne into the Climate Change and Emissions Management (CCEMC) Fund; or use of previously generated emission performance credits. The \$15 payments are used by CCEMC to fund research and development of innovative new technologies to reduce GHG emissions. According to their 2013 Annual Report, some \$160 million in industry contributions have been levered into nearly \$837 million of total technology investments.

Alberta’s target is to reduce emissions by \$200M, or 50 percent below business as usual, by 2050 although there are suggestions that the Redford Government may encourage emission reductions by increasing the levy on carbon.

Companies in the oil patch are increasingly using shadow carbon pricing. And all of the big players in the oil sands have joined forces to develop the next generation of technologies that will bring significant environmental improvements.

Saskatchewan has piloted carbon capture and storage, including collaborative projects with Montana and North Dakota and the US Department of Energy.

Leadership in getting out of coal-fired generation began in Ontario under then-Premier Dalton McGuinty. Ontario will close its coal-burning plants by the end of this year. A decade ago, coal fired 25 percent of its electricity grid. Coal is being replaced with an emission-free energy mix

including nuclear and renewables, and lower-emission natural gas. It is estimated that natural gas emits 70 percent less particulate matter than coal and virtually eliminates mercury and sulphur dioxide emissions.

Under the leadership of then-Premier Jean Charest, Quebec was the first jurisdiction in North America to implement a carbon tax (2007) that collects \$200M a year for green projects. In designing the Plan Nord, Quebec committed to protecting 600,000 sq kms (a territory the size of France) from industrial development. The New York Times editorialized it as “one of the largest land conservation initiatives in history”.

Quebec has since also put a cap on carbon, the result of collaboration through the Western Climate Initiative, led by California, which originally involved seven states and four provinces. On January 1, 2013 both California and Quebec implemented a compulsory cap-and-trade system. Both aim to reduce greenhouse gas emissions to 25 percent below 1990 levels by 2020.

There are other projects — tidal power in the Bay of Fundy, alternate energy initiatives in biomass, wind and solar. Prince Edward Island’s biomass district heating plants, fueled by wood pellets and municipal solid waste, provide heat for more than 125 buildings including the University of Prince Edward Island.

In terms of land claims and constructive collaboration with First Nations, Manitoba and Quebec lead the way in their development of hydro-electricity, including transmission lines.

The provinces are also active in regional associations of legislators. The premiers have been especially active with their governor counterparts. As Premier Wall has observed, Americans need to be constantly reminded of their northern partner because “like a long-lasting marriage, it’s important to have a date night.”

Premiers Redford and Selinger attended the February National Governors Association meetings in Washington. Premier Selinger argued that we also need to push the Americans to show some ‘progress’ of their own on hydro, the cleanest energy in terms of greenhouse gas emissions.

Ambassador Doer decries US obfuscation — effectively, protectionism — in refusing or denying definition of Canadian hydro under renewable energy standards. By including Canadian hydro we can go a long way to greening our continental electricity system, adding over the next 25 years, approximately 25,000 MW of Canadian hydro-electricity. Canada exports an average of 40 terawatt hours a year to the US. Each terawatt hour of hydro exported to the United States largely replaces fossil fuel generation, reducing North American GHG emissions by at least half-a-million tons according to the Canadian Hydropower Association.

At the same time, we also need to diversify our market by getting our oil and gas to tidewater. The discussions launched by premiers Redford, Alward and Marois deserve further debate at the Council of the Federation when they meet this summer. Getting western Canadian oil to eastern Canadian consumers is the immediate objective but it would also potentially allow export overseas. Also worth discussing



Photo: Shutterstock

Jim Prentice’s proposal to develop a thriving Canadian LNG industry, transporting natural gas to Asia, in recognition that the incremental demand of tomorrow is going to be from Asia, not the US.

Knit these initiatives together and we will have the makings of a national eco-energy strategy that will put us ahead of our climate change obligations.

We should also apply the lessons learned in the negotiation of the Boreal Forest Accord. Its architect Avrim Lazar says the forest industry concluded that “our jobs and growth in the future will rest on making our environmental practices the highest in the world.” Make our experience the base for further regional ‘green’ initiatives, especially those that focus on water use.

Let a thousand flowers bloom — but with caution. We know that some flowers should be nipped in the bud: those that are simply too expensive (compared to alternative ways of reaching the same outcome) and those that create a lot of free riders. Not all policy actions are equal. We need to focus on those (yes, more than one — a portfolio) that allow us to reach (or have the potential to allow us to reach) environmental goals at low cost. In some case “incentives” need to be permanent — carbon pricing, for example, should be permanent — and it does give incentives to go off carbon. The “permanence” of the incentive depends on the nature of the issue: for example, there is a need to have a “permanent” set of incentives for R&D activity (not just in energy) because of the “public good” nature of the outcome. Without some form of incentive, too little R&D activity will be undertaken. Here again, the form of the underlying policy action is important.

Our energy ambitions and energy policy should have a solid grounding in sound environmental thinking and practices. Be mindful also that technology takes time to mature, especially for early stage

technologies that are transformative in nature. But we are making measurable progress.

All of this effort can also go some distance to addressing (with a counterpunch on hydro) the US demand, as expressed by Ambassador Jacobson, for ‘progress’ on climate and clean energy.

Usually, we are the ones making ‘asks’ of the US on environmental issues — acid rain, Great Lakes clean-up, and preserving the sanctity of the Arctic. Brian Mulroney artfully demonstrated on acid rain, when we clean up our own act, we can ‘shame’ the United States into action.

In accepting the award as Canada’s ‘greenest PM’ after an introduction from now-Green Leader Elizabeth May, Mulroney made two observations:

“First, it doesn’t really matter what the process is, so long as the problem is addressed by leadership. Where political will prevails, solutions will follow. And second, there are few durable solutions on the environment, or on any other international issue, without the engagement of the United States and the leadership of its president.”

He would go on to articulate the cardinal rule of global politics: “Canada’s influence in the world is measured to a significant degree by the extent to which we are perceived as having real influence in Washington.”

The Obama blueprint for a clean energy future opens the door to a continental eco-energy approach. It’s up to us to take the initiative by developing a ‘Made-in-Canada’ eco-energy strategy. ♣

*A former diplomat, Colin Robertson is vice-president and senior fellow of the Canadian Defence and Foreign Affairs Institute and senior strategic advisor to McKenna, Long and Aldridge.*

# CONVERSATION WITH BJORN LOMBORG

## *Global Problems, Smart Solutions*



*Thursday, June 6th, 2013*  
Montreal (Ritz-Carlton Hotel)

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*6:00 pm Reception*

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*6:45 pm Dinner*

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*9:30 pm After Dinner Salon*

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### *Ticket Prices*

\$300/individual or \$3,000/table

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All guests are invited to an After Dinner Salon for cocktails and to keep the conversation going!

All guests will receive signed copies of the book *The Skeptical Environmentalist* at the event.

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Photos courtesy Justin Trudeau/Adam Scotti

# Who is this man, really, and just what impact will he have on Canada's political landscape?

*James Anderson*

To a great many voters, Justin Trudeau evokes memories of his famous father, a man who ruled Canada for almost 16 tumultuous years, a period during which Canada saw rates of inflation so high that the government felt it necessary to impose wage and price controls. The Trudeau years also featured record-high mortgage rates (peaking near 23 percent in 1981); oil shortages; an “apprehended insurrection” (aka the FLQ crisis); the election of a separatist government in Quebec; a string of rapidly increasing deficits; a referendum on Quebec sovereignty (sort of); patriation of Canada’s Constitution and the introduction of a Charter of Rights.

Pierre Elliott Trudeau was regarded by admirers as an impressive intellectual who also happened to be the most charismatic politician the country had ever seen. His critics pointed to ballooning debt (which they regarded as evidence of poor economic management) and tended to view him as the most arrogant and divisive prime minister in Canada’s history. Supporters and opponents were in agreement on one thing, however: PET was a shrewd politician, a formidable intellect and a man that you underestimated at your peril.

Some speculate that it is his father’s aura that accounts for Justin’s popularity. Without question, Pierre’s eldest son has benefited from the name recognition associated with his father. But the family name alone cannot adequately explain his popularity to date: for Justin’s greatest ap-

peal is amongst the younger set, whose knowledge of Pierre Trudeau is primarily derived from history books. In fact, anyone under 50 in Canada has never had a chance to cast a vote for Pierre Trudeau.

So, if it’s not direct experience with — or extensive knowledge of — Pierre Trudeau what accounts for Justin Trudeau’s current popularity?

While his critics may be correct in asserting that the 41-year old Trudeau’s political resume is thin, it is equally fair to acknowledge that the new Liberal leader has a solid understanding of basic liberal principles and values. This is not surprising considering his upbringing, but the upshot is that he has developed and demonstrated good political instincts and has become increasingly comfortable with the narrative that he presents while touring the country. Indeed, when discussing topics he cares most about most — the environment, social justice, human rights, equity, tolerance, diversity — he has succeeded at motivating people by conveying sincerity, a political “good” which can neither be bought nor taught. It will be interesting to see how well these political instincts serve him as he navigates the political minefields that come with the increasingly intense media scrutiny that will be brought to bear over the next two years.

During his campaign, Trudeau sought to represent the aspirations of a new generation of voters who feel their concerns have not been adequately reflected by politicians (of all stripes). He comes across as genuinely committed to bringing a more bottom-up, approach to governing. But, it may be that Justin Trudeau’s consultative and inclusive approach to

governing may provide the starkest contrast to the more autocratic style of Stephen Harper. Indeed, it could also be said to be quite different from that of his late father, who did not suffer fools gladly and once was heard to describe MPs as nobodies once they were 50 yards away from Parliament Hill. It would be easy to assume that the greatest political influence on Justin Trudeau was that of his father, but his warm and engaging approach is said by those close to him to be far more similar to that of his maternal grandfather, James Sinclair, who served in Louis St. Laurent's cabinet in the mid-1950s.

Whatever the origin, an ease with the public is a political attribute that is all too rare for political leaders, many of whom have proven to be too cerebral, arrogant, aloof, thin-skinned and in some cases, even shy, to connect well with voters. Sometimes the connection can be fleeting (Kim Campbell '93 comes to mind), but if it is timed properly, or endures, the ability to connect is political gold. Jack Layton connected in 2011, Brian Mulroney in 1984, Pierre Trudeau in 1968. (Timely and honourable mention must be given at this point to the late Ralph Klein, who stood out at the provincial level for being able to connect with voters.) It remains to be seen whether Trudeau the younger, will be able to generate that kind of connection with Canadians once they get a closer look at what he is offering.

Some may cringe at the thought of voters being attracted to a candidate by anything other than a sound and well-articulated policy platform, but one cannot discount the edge that what might be termed superficial factors can provide. On this front, Justin Trudeau clearly brings something to the game. He has charm, at least some of his father's charisma and an abundance of confidence. It doesn't end there, either: he's a striking physical presence, tall, with good hair and a winning (and easy) smile. He is also young and energetic, further attributes which put him in good stead as the Liberal party seeks to contrast him with Stephen Harper and Thomas Mulcair.

But, it doesn't do justice to Justin Trudeau to suggest that his political attributes are limited to these superficial factors. He is inexperienced at policy-making, but those closest to him say he's a quick study who isn't afraid of work. He's comfortable with the media, has a competitive spirit that serves any politician well and has also shown some political shrewdness, most notably in his choice of advisers. He has selected an impressive crew of mostly 40-somethings, while simultaneously maintaining a respectful but often arm's-length relationship with some of the old guard who were most closely associated with the internecine warfare of the Turner-Chrétien and Chrétien-Martin eras.

He also showed political skill and a willingness to take risks when he was entering politics. Prior to the 2008 election, he was advised to seek a safer seat but concluded that earning support in the low-income riding of Papineau would be the first step to proving his political bona fides. His foray into the boxing ring was another calculated risk, and one that had some of his closest advisers concerned. Trudeau, however, was brimming with confidence and committed to proceeding, so much so that he had tried to entice higher-profile Conservatives to agree to meet him in the ring (in fact, Senator Patrick Brazeau was well down the list of Conservative opponents Trudeau tried to lure into battle).

It's important to remember, however, that we're a long way out from an election. Trudeau's polling numbers are favourable now but, if a week is a long time in politics, two-and-a-half years is an eternity. Stephen Harper and Thomas Mulcair are both seasoned and astute politicians who know how to do battle and won't be pulling any punches. Justin Trudeau will undoubtedly face some challenges as he settles into the leader's seat and will almost certainly make a notable mistake or two along the way due to inexperience and as the pressure and intensity of the spotlight increases. As any opponent would do, the Conservatives will seek to exploit any mistakes as well as his known weaknesses. But, if early mistakes don't cause him to self-destruct and if attack ads fail to have their intended effect, time may be on Justin Trudeau's side. He will have many months to hone his skills during Question Period debates and will get a chance to formulate and then articulate his positions on key issues before Parliament. At some point, he will need to step up to the plate and really communicate where he stands and how he is different from the other party leaders if he wants to have any impact on Canada's political landscape. Everyone is watching to see just who this man is and what he will achieve. Stay tuned.

On the following pages we present a range of perspectives on Justin Trudeau from three people who've spent time inside the political arena. Ken Boessenkool (Conservative strategist), Steven Langdon (former New Democratic Party MP) and John Duffy (Liberal strategist) each analyze the implications of Trudeau's arrival for their respective political parties.

For those who can't get enough, The Huffington Post's Althia Raj and the Toronto Star's Susan Delacourt have each authored e-books on Trudeau in recent weeks. Both *Contender: The Justin Trudeau Story* (Raj) and *Justin Trudeau: Can He Bring the Liberal Party Back to Life?* (Delacourt) are worthy reads offering some interesting insights into Trudeau's formative years and his political career to date. 📖

## Did you know?

- **Pierre Elliott Trudeau** represented Mount Royal, a Montreal-area riding the Liberals have held continuously since 1940.
- **Justin Trudeau** was first elected in 2008, taking the Montreal-area riding of Papineau from the Bloc Québécois.
- **Pierre Trudeau's** Mount Royal riding has consistently ranked among the highest income ridings in Canada.
- By comparison, **Justin Trudeau's** riding of Papineau had the lowest average family income in Canada according to the 2006 census.
- The young **Justin Trudeau** often accompanied his father during foreign trips. But he has also travelled extensively as an adult. While in his twenties, he backpacked through a dozen African countries, often sleeping under the stars and travelling on the back of a flatbed truck. He has now been to over 100 countries.
- **Pierre Trudeau** was physically active. Among his avid pursuits were: canoeing, skiing, swimming and judo (he was a second degree black belt).
- **Justin Trudeau** enjoys a similarly active and varied lifestyle. His love of canoeing, kayaking and hiking have led him to visit almost every national park in Canada. He likes whitewater rafting (he was a guide on the Ottawa River) and fishing. He also enjoys scuba diving, having been taught as a child by Dr. Joe MacInnis, a family friend who was later involved with the team that discovered the Titanic. He took up boxing as a kid (and still uses training to stay fit). He enjoys yoga (his wife Sophie recently became an instructor) and once tried bungee-jumping.



# How Conservatives can respond to a Liberal Party led by Justin Trudeau

***Ken Boessenkool***

If the Conservatives were looking for a policy reaction to the anticipated crowning of Justin Trudeau as Liberal leader, what might that reaction look like?

Before that, a caveat. Mr. Trudeau currently has a singular goal — winning over those willing to hand over a few bucks for a Liberal membership (as well as some willing to hand over only their name).

His policy approach to this task is likely a pale shadow of his approach to the much more daunting task of graduating from the playroom to the front room of 24 Sussex Drive.

Still, Mr. Trudeau has dropped some hints. And it is never too early to start thinking seriously about how to respond to a political opponent. A convenient way to think about such a response is to divide it into three buckets — the Who, the How and the What.

*Trudeau currently has a singular goal — winning over those willing to hand over a few bucks for a Liberal membership. Still ... it is never too early to start thinking seriously about how to respond to a political opponent. A convenient way to think about such a response is to divide it into three buckets — the Who, the How and the What.*

## **The who**

The “Who” is concerned with which demographic field on which one fights an opponent. For example a key demographic battlefield of the Stephen Harper vs. Prime Minister Paul Martin battles of 2004 and 2006 were women with children. Not surprising, an appeal to that demographic was a key feature of both campaigns—specifically a fully-costed, monthly, per child cash benefit for all families with children on the Conservative side against the Liberal’s incompletely-costed and recycled promise to institutionalize the nation’s children in

nationalized, union-run child care facilities.

Turning to the present, much ink has been spilled on the Conservatives' work to attract the vote of new Canadians — a key demographic battlefield. The party has engaged a personal as well as a policy approach to attract these voters. Minister Jason Kenney has led the personal approach. The policy approach has been, first, address specific community grievances to demonstrate seriousness — such as the Chinese head tax apology or Canada's stand on the Middle East. Second and more broadly, the Conservatives engaged a forward-looking approach of hope (Conservatives stand with you on the core values of family, hard work and entrepreneurship as a way to strengthen your community and the country) to counter the Liberal backward-looking approach of fear (only the party of the Charter can protect you from those conservative racists).

The openness of new Canadians to the Conservative party is growing, but is also vulnerable to a sincere approach from the Liberals — especially if accompanied by a revival of their politics of fear. And one need only read Mr. Trudeau's speech to the Reviving the Islamic Spirit Convention as a most sophisticated specimen of the traditional Liberal politics of fear.

Women continue to be the largest and most important block of swing voters — not only women with children but also empty nesters. The Conservatives have a solid record with female voters, but it would be foolish to expect Mr. Trudeau to leave this ground vacant. His charisma and the historical Liberal use of the politics of fear — some unspecified hidden agenda on social issues — could well counter the Conservatives' strong record. Conservatives will need to reach into their policy arsenal to find new ways to assure women voters that they are the party best able to address their aspirations and concerns. This means finding new ways of addressing one of these voters primary concerns — the affordability of living and raising a family.

### The how

The "How" is concerned with an overriding policy approach that highlights your strength while bolstering your opponent's weakness. For example, Prime Minister Paul Martin never met a small problem he didn't want to address with some "grand scheme." Further, he talked as if every priority was his top priority. Stephen Harper responded with a finite list of very specific, incremental and achievable policies wrapped up in a finite—five in 2006— number of priorities.

Turning to the present, there has also been much ink spilled on the lightness of Mr. Trudeau's policy approach—in his speeches and writings there is much more talk about principles, values and an "evidence-based" approach to policy than any actual concrete policy proposals. But let's not be too harsh here. Mr. Trudeau is running a classic front-runner leadership campaign with strong star power. We should not expect him to continue this approach with the general electorate — though it will be a conservative temptation to do so.

Yet there is one approach to policy that Mr. Trudeau will never be

able to match. And that is the Conservatives' solid economic record through the global economic meltdown. The Economic Action Plan is a ready and strong answer to the Conservative contribution to how Canada escaped the worst of the economic meltdown in the US and Europe. This economic record was a key factor in the ascension of the Conservatives to a majority government as well as the re-election of a number of other incumbent governments—Alberta, Manitoba and Ontario. Voters in all these jurisdictions rewarded incumbents for economic management in recent years—a stunning departure from how voters historically treated their governments following an economic downturn.

Mr. Trudeau simply does not have the economic experience or credentials to match the Prime Minister's leadership on, and understanding of, economic issues. And so long as economic management and the economy remain a top concern for Canadians, Mr. Trudeau's experience and credentials deficit deserve to be exploited.

*Mr. Trudeau's campaign has made much of saying they want an "evidence-based" approach to policy, supposedly devoid of ideology or historical bias. That's a nice sounding platitude, but hardly a strong guide to policy.*

### The what

The "What" is concerned with the reservoir of policy from which every party leader has to draw. Those reservoirs can come from a party policy book developed at party conventions (the Blue Book for Conservatives), a long history of policy positions from time in government (a strong reservoir for Liberals) and/or a leader's personal history.

No party and no government can move on every policy file at once. From an electoral point of view, a party or a government needs to identify priorities based on the voters it needs to attract as certain policies highlight differences with its principal opponent. Among these are "sword" policies for offensive battle and "shield" policies for defensive battle. A key shield for the Conservatives in 2004 was a national pharmacare program and in 2006 a national wait times guarantee. These two policies gave Conservatives something to say on what was anticipated to be the central policy sword plank of any Paul Martin campaign—health care.

Mr. Trudeau's campaign has made much of saying they want an "evidence-based" approach to policy, supposedly devoid of ideology or historical bias. That's a nice sounding platitude, but hardly a strong guide to policy. For in politics, as in government, waiting for all the evidence can lead to policy paralysis. Yet Mr. Trudeau's own record suggests he is less keen on evidence than in relying on the historical policy roots of the Liberal party.

The Liberal Party has a strong corporatist history—the close symbi-

otic and protectionist relationship Liberals have fostered between big business and big government. For example, they created Petro-Canada; they protected and coddled the oligopoly in telecommunications and favoured tight and close oversight of the financial sector. Further, the Liberals have historically relied more heavily on funding from big business. Not all of these biases have served Canada badly. Canada has, however, on balance been much better served by the more populist, free trade and privatization bias of the Conservative party and its predecessors.

This corporatist bias was in evidence in the strong and unconditional support Mr. Trudeau gave to the Nexen-CNOOC transaction. Mr. Trudeau put aside significant public concerns about foreign state-ownership and played down security concerns. More important—and evidence of the historical Liberal corporatist approach — he ignored the concern that after moving away from state-ownership, especially in our resource sector (see Petro-Canada above), transactions that move back towards state-ownership should be treated with appropriate nervousness. The Conservative approach was the right approach — and also consistent with their more populist, privatizing and outward-looking approach.

The Conservative trumping of consumer interests over corporate interests could manifest itself by continuing to favour competition and consumer choice, for example in telecommunications. And in trade negotiations the Conservatives could allow the consumer agenda to trump the interests of big business, albeit incrementally.

On education, Mr. Trudeau’s response showed a comfort with the historic centralizing tendencies of the Liberal Party of old (and of Dad). Despite words about “respecting provincial jurisdiction” Mr. Trudeau set out a goal of having 70 percent of Canadian students in post-secondary institutions. Such a goal could only be achieved by a

significant intrusion into provincial jurisdiction. A party who truly respected provincial jurisdiction and believed that the federal role in higher education should be restricted to funding pan-Canadian research and a well-designed student loan program would never set out such a goal. And on these issues, the Conservatives approach of sticking to their own knitting, and telling the provinces to do the same, will continue to serve them well.

So, for example the Conservatives could continue their hands-off approach to provincial health care programs and contrast that with a “wrangling, meddling and fighting” approach under the Liberals. And on the constitutional file, the Conservatives could again point to the relative peace that has resulted from a hands-off and decentralist approach which would be upset by a centralizing, Ottawa-knows-best, meddling approach, particularly among Francophone voters in Quebec.

**Conclusion**

Mr. Trudeau has been running a classic and self-proclaimed policy-light front-runner campaign. Yet some of the broad outlines of the Who, the How and the What of his policy approach can be identified. And hence countered.

The Conservative policy reaction to Mr. Trudeau will require less of a change in direction than a tightening and re-focusing of their existing approach. ♣

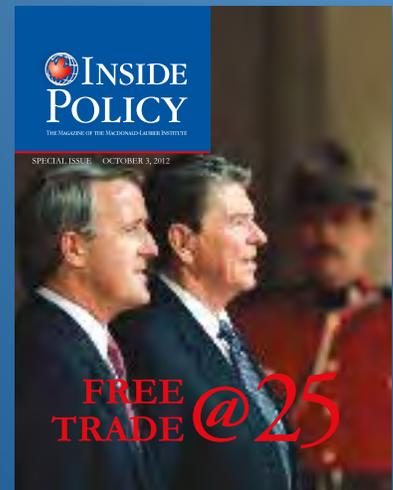
*Ken Boessenkool is a public affairs strategist who recently co-founded Kool, Topp & Guy. He has played senior roles in three national election campaigns. He has served as a policy advisor to three national Conservative leaders, two Alberta Finance Ministers and as Chief of Staff to the Premier of BC. He has also played senior roles in three national leadership campaigns and two provincial leadership campaigns.*

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Photo courtesy Justin Trudeau

## Justin Trudeau: Media flavour of the moment?

*Steven Langdon*

Don't, my memory says, count long-term on the froth factor in Canadian politics. Kim Campbell, our first woman Prime Minister, looked set to sweep the country when she was chosen, according to the first post-convention polls. And John Turner was welcomed back as a messiah when he was persuaded to run in 1984.

Being media flavour of the moment, Justin Trudeau will find, does not last.

I discovered this with an earlier father-son example. Stephen Lewis became leader of the Ontario NDP, while father David led the national party — and I was one of many journalists intrigued (and inspired) by Stephen's dramatic speeches. Yet in the end Stephen's 1971 appeal spurred a huge jump in voting turnout, rather than any increase in NDP seats. (Over 73 percent voted, compared to 66 percent in 1967.)

What matters in defeating a government, I learned, is not rhetoric and charisma. It takes strong organization and clear policy definition to develop a serious challenge — and a strategy that identifies crucial weaknesses in a governing regime's approach.

The federal NDP under Tom Mulcair has been serious about improving its organization, so as to challenge everywhere. Mr. Mulcair has also stressed the implementation failures of the Conservative government, from hiding fighter aircraft costs to weakening food inspection; his party has effectively attacked arbitrary actions of the Harper regime such as gutting the Long-Form Census and the abrupt withdrawal from the UN Convention to Combat Desertification.

Now, with two years to 2015, the Leader of the Opposition has turned to a policy push. There are two major areas on which he should focus.

First, the federal NDP must put a credible positive spin on its pro-industrial policies. So far, the party has won attention mostly for its critique of the high petroleum-driven value of the Canadian dollar and the damage this does to manufacturing. Anyone with first-hand experience with industrial firms in most parts of this country knows that Mr. Mulcair is right that our over-valued exchange rate often hurts sales, profits and jobs. But what is the remedy?

Making the petro-sector pay fully for its environmental effects may lessen some upward pressure on the Canadian dollar. But an energy bonanza inevitably has a powerful impact — so additional pro-manufacturing policies are needed to balance the economy.

This is what I discovered in my research on the 1975-85 Dutch response to their energy boom. Dutch manufacturing firms were squeezed. But the government launched a rebuilding effort in co-operation with business and labour — forming a restructuring institute to improve products and technology, helping weak sectors consolidate and spin off problem output (like textile spinning,) and retraining workers for skilled jobs. Restructured companies thrived in the years ahead.

In 2013 North America, the Obama White House is pushing similar pro-manufacturing policies. As statistics show factory production rebounding, the Obama team is focusing on “Reshoring” — the return to the US of manufacturing jobs that have gone overseas. Serious business research groups (such as the Boston Consulting Group) say the need for faster market responsiveness plus higher transport costs are pushing almost 40% of firms to reconsider previous offshoring choices. Obama is encouraging this with tax changes and 15 proposed new innovation centres.

This new trend looks serious, with some 50,000 jobs since 2010 in reshored factories; General Electric has been a major leader, with other key players including Apple, Otis Elevator and Emerson Electric.

Connecting new technology and training changes more closely to the production process, with product and market changes coming much faster, seems crucial in this momentum.

Canadian firms have played a notable part in what is happening within the US. Indeed, when President Obama highlighted the pro-industrial message in his 2013 State of the Union presentation to Congress, he visited the expanding new factory of a Canadian auto-parts multinational, Linamar, which had shut down one of its Ontario facilities (Invar Manufacturing in Batawa) in late 2009. Methanex, a Canadian petrochemical firm, is also expanding US production this year, shifting a major processing facility from Chile to Louisiana.

Ironically, though, business researchers have not been able to find any parallels within the Canadian economy of the US-style reshoring trend. GE, for instance, has not shifted any returned assembly lines from China to its Canadian factories; most new auto-related investment continues to go to Mexico and Asia; and even production of hockey sticks by Quebec's Sher-wood Company has been shifted to China!

This Canadian gap and the strong new Obama policy effort give the Mulcair-led NDP a dramatic opportunity. It is time for a "Reshoring North" vision. Manufacturing can be rebuilt as a dynamic part of our economy. This will require leadership that builds co-operation between labour and business rather than Harper-style divisiveness; it will need support for science and environmental security; and it must mean using our resources for value-added rather than raw exports.

President Obama gives a pro-manufacturing policy package credibility in Canada. In the next two years, Tom Mulcair should define the restructuring, retraining and innovation efforts needed to realize "Reshoring North."

A second policy thrust should also draw on US experience for confirmation. Our parliament has witnessed frustrating debate about whether or not a "cap and trade" system of pricing carbon dioxide pollution represents a tax. This semantic argument has gone forward without the Harper Government ever focusing on the successful experience that North America has already had with "cap and trade" approaches to tackling sulphur dioxide pollution in the case of acid rain.

Beginning in 1990, George Bush and then Bill Clinton implemented a Clean Air Act that established a tough goal of 10 million tons fewer emissions per year, and established gradually falling limits ("caps") to reach it. Those power companies cutting measured pollution by more than their cap could earn rewards by selling their superfluous rights to other firms. The system has been a huge success, with acid rain emissions cut in half by 2010 (far lower than the goal,) at an annual cost to US utilities of \$3B USD, rather than the \$25B projected. Health benefits, cleaner lakes and smog reductions results are valued at \$122B (according to the Smithsonian Magazine.)

The federal NDP should stress this experience to Canadians. When the party advocates a "cap and trade" approach to cutting pollution, its leaders speak with the credibility of a clearly effective environmental achievement on their side.

There is also a functioning carbon "cap and trade" system that is already operational in North America. California has now successfully carried out several auctions of carbon emission "allowances," at prices ranging between \$10.09 and \$13.62 per ton (though most allowances have been distributed free to target companies.) Some \$200M USD in 2013 funds will be raised by the state government as a result.

The California experience underlines another point, too.

The best way to counter voter suspicion of using "caps" to cut pollution may be to change the perception of what happens to the revenues produced. In California, the Public Utilities Commission has now decided that 85 percent of its share of auction proceeds must go directly to California households as dividends or rebates to offset electricity rate increases.

"Cap and trade" instead becomes "cap and dividend." This protect-the-final-consumer strategy is the approach at a national level that US Senators Bernie Sanders and Barbara Boxer are taking in a new legislative initiative just introduced; it mirrors the CLEAR bill (Carbon Limits and Energy for America's Renewal) that Senators Maria Cantwell (Democrat) and Susan Collins (Republican) promoted in 2009.

Again, Tom Mulcair can increase the credibility of his policy positioning by drawing on this US experience. "Cap and dividend" would recast the political argument in Canada, countering "carbon tax" attacks. In the carbon pollution fight, there are also European examples to cite. But there is an extra degree of affirmation often for Canadian voters in seeing successful US efforts that are much closer to home.

Is there a danger of looking too populist if you care about final consumer costs?

For me, two political priorities matter. A policy must be effective — and "caps" make sense because they do inexorably reduce emissions. We know that from the case of acid rain. "Caps" work.

And then there is what Jack Layton always remembered. You have to reach your people, "the working families" that Jack always talked about, even when it made political commentators impatient with him. Fighting for the environment has to be positive for them, and carbon dividends will do that. Such dividends can also be structured to provide extra benefits if spent on green home energy improvements.

Tom Mulcair, I believe, has an exciting opportunity, despite Justin Trudeau. He can provide a vision of "Reshoring North" for our manufacturing, and a fairness message for Canadians on carbon pollution. This will make him our next Prime Minister. ✪

*Steven Langdon is an economist who has worked as a consultant to the World Bank, and to the US, Dutch and Kenyan governments. Previously Associate Professor of Economics at Carleton University, he served as MP for Essex Windsor and Finance Critic of the federal NDP. He was also an editorial writer and columnist for the Toronto Star, and more recently directed a series of parliamentary support projects across Africa.*



## Justin Diefenbaker: How the Liberals can do what the Tories did to them in '57

*John Duffy*

The government has grown stale in office. It cloaks its weary, faded vision in a mantle of partisan invincibility. Accusations of high-handedness and obsessive secretiveness are hurled across the floor of the Commons each day, only to be lazily pawed back by semi-comatose ministers who exude boredom as they go about their appointed rounds. The fire has gone out as the party hugs the centre like grim death, leaving activists in the membership and caucus increasingly restive. The old king endures, wounded but still on the throne; some days his decade in office seems like it has been an eternity.

The weakness of the opposition is palpable. The socialists have all of the intellectual energy, and most agree that if history is on the side of any opposition party, it's theirs. The social-democrat leader is a street-smart veteran of provincial politics, with an amiable working-class manner that hides a very tough core behind an avuncular mein.

As for the other opposition party, its best-before date looks like it's

*The weakness of the opposition is palpable. As for the other opposition party, its best-before date looks like it's come and gone. The party has suffered a string of weak leaders interspersed with interim ones. Its regional strongholds seem to have evolved away from under it, leaving the party with a dramatically shrinking base—and now, to top it off, the party is taking a flyer on an untested, rookie leader.*

come and gone. The party has suffered a string of weak leaders interspersed with interim ones. Its regional strongholds seem to have evolved away from under it, leaving the party with a dramatically shrinking base. The major centres of electoral growth in the country are peeling off towards either the government or the socialists. The intellectual agenda that gave the party meaning seems passé, a relic of a bygone century.

And now, to top it off, the party is taking a flyer on an untested, rookie leader. He is seen as taking on a job that no one else wants, a leadership that has shrunk to where it suits this rather slight political figure. The new leader is a lonely voice from one of the party's hard-luck regions — a minority view from a minoritarian wing of an increasingly minor-league party. Worst of all, he doesn't talk about issues so much as he just stands up and does his thing. Young people seem to like it, but no one who is serious in politics thinks much of this guy. He's an undertaker — an oddly flashy one — whose main job will be to bury the party or merge it with a competitor.

So let's say it out loud. You heard it here first: Justin Diefenbaker.

Not the palsied caricature of the flag debate, all Colonel Blimp droning on about the Empire and the Queen. Not the glowering victim of ten years of fratricidal struggle, nor the populist legend on a funeral train rolling across the prairies. But rather, Diefenbaker Ascending — the birth of the modern in Canadian politics, the slayer of natural governing parties, sweeper of big cities and harvester of the youth vote. The Dief of '57 and '58 — that's the John Diefenbaker that comes to mind when reflecting on the rise of Justin Trudeau.

Obviously, there are significant differences between the two men, going well beyond the 80 years that separates their dates of birth. Dief was an outsider's outsider; Justin to Number 24 born. Before politics, Dief plied the dusty courtrooms of northern Saskatchewan for a living; Justin habituated the speaker's circuit. Diefenbaker was scarred by serial losing campaigns before he finally eked out a marginal role in the federal House. Justin has won every battle he has taken on — even a boxing match.

These dis-similarities are real, but they shouldn't be allowed to obscure the underlying similarities. Certainly the approach to leadership feels similar. Diefenbaker was, and Trudeau is, first and foremost a communicator. Contrast this with Chretien or Mulroney's role as political-operator-in-chief, or Paul Martin or Trudeau pere's chief-policy-officer approach. The political offerings of these leaders' parties reflected the approach.

It is perhaps here that the Diefenbaker parallel with Justin Trudeau may prove most striking. It is reasonable to expect that the next Liberal campaign offering will be wrapped around the Leader and his personal qualities, rather than a set of strategic issues or a distinct policy prescription.

Recall Diefenbaker's campaign manager, Allister Grossart, digesting a Liberal attack on his candidate in the midst of the 1957 campaign. Prime Minister St. Laurent had jested that the PC Party had subsumed its entire offering into the Diefenbaker cult of personality. "Now is the time for all good Diefenbakers to come to the aid of their party," chided a chuckling Prime Minister. Rather than feel the sting, however, Grossart relished it. "That's the point!" he cried. "They don't understand. It's Diefenbaker. It's Diefenbaker."

Any day now, the attack-advertising barrage against Justin Trudeau will commence. In preparing that assault, Mr. Trudeau's opponents

face a dilemma not dissimilar from M. St. Laurent's. They need to attack Trudeau as he is the vehicle now carrying much of the Liberals' revival. But in making him the focus of their attack, they run the risk of placing Trudeau even more prominently at the centre of the national conversation, thus accelerating a dynamic that has been working very much in the Liberals' favour now since the leadership race got revved up last autumn.

It's not clear where strategic policy will fit into all of this. One presumes the Conservatives will continue to seek to present themselves as moderate and sensible, particularly on the economy, and pursue the assaults on Trudeau himself as a separate exercise.

*(He)doesn't talk about issues so much as he just stands up and does his thing. Young people seem to like it, but no one who is serious in politics thinks much of this guy. He's an undertaker — an oddly flashy one — whose main job will be to bury the party or merge it with a competitor. So let's say it out loud. You heard it here first: Justin Diefenbaker.*

For the New Democrats, the policy response to Trudeau is more complex. For almost ten years under Jack Layton, the core NDP policy approach appears to have been to narrow the distance between themselves and the Liberal Party on policy issues. This narrowing has allowed the party to present leadership, not policy, as the principal difference between the NDP and the Liberals.

Now, playing down policy and playing up leadership may have been a sound strategy when the leaders' match-up was Jack Layton vs Stéphane Dion or Michael Ignatieff. But repeating the strategem may be ill-advised with Justin Trudeau squaring off against Thomas Mulcair for the prize of being The Alternative to Harper. If anyone is the Layton-like figure in that scenario, it's Trudeau.

By this logic, the NDP may well be forced to consider widening its differentiation on policy vis-à-vis the Liberals. This may help explain this spring's otherwise somewhat quixotic-seeming decision by Mulcair to raise the Sherbrooke Declaration. Highlighting the NDP's willingness to allow Quebec separation with a single-vote majority on a provincially-framed question may be just the first of a series of policy fights the NDP could seek to pick with the Liberals.

For their part, the Grits may well prefer to avoid setting up fights using wedge issues, as this could serve only to divert attention from the leadership edge that the Grits will enjoy under Trudeau. Instead, the Liberals' main policy challenge is likely to firm up the public's understanding of the Liberal offering. The Trudeau Liberals should perhaps define themselves principally by what they are for, rather than seek to do so through what they are against.

The Liberal past could be a valuable asset in this. Canadians have



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grown unfamiliar with the Liberal story. Yet mountains of public opinion research confirm that Canadians hold in very high esteem the very things that Liberals can claim as the centerpieces of their achievements over the decades. Medicare, old age income security, the Charter, peacekeeping and environmental initiatives are recoverable assets for the Liberal Party.

Grits should ignore the pundits who groan whenever the Liberal past is recited. Instead, they should hammer home to Canadians that these achievements, and the values they reflect, are graven on the DNA of the Liberal Party. There can be no better way to crisp up the very fuzzy edges of the Liberal proposition than to point to a record of authentic pursuit and significant achievement on the issues Canadians have never stopped caring about.

As well, the Liberals can and should focus on accountability issues. Not in the way the Harper government has defined them, but by addressing the secretiveness and information management that has become a significant impediment to Conservatives' political standing.

It's easy for the Liberals to overreach this issue, and spiral into the democracy-in-peril narrative that yielded such poor results for Ignatieff. A reasoned, modulated critique of the government's style could play for Trudeau the role that the pipeline debate played in 1956: an issue to run on to be sure, but far from a referendizing question such as free trade in 1988 or the green shift twenty years later.

In the end, Grossart is right; it's Diefenbaker. Three current trends are putting wind in the Grits' sails, but it's Trudeau's leadership that is truly powering their progress. First, the electorate appears to have soured significantly on the Conservatives, taking them in current polls down to the core support base associated with Stockwell Day's Canadian Alliance. Second, there is no material drift towards conservative political values; Canadians remain as liberal as ever. Third, non-Conservative Canadians appear ready to consolidate their electoral support behind a single option in order to achieve the objective of ousting the Conservatives.

Trudeau's leadership can bring it all together. Trudeau appears to have the leadership edge in the match-up with the NDP, a reversal of the 2008 and 2011 scenario. Moreover, he appears to be the kind of political figure — like Obama and Layton — who can engage new voters in politics.

These factors together can, if things go well for the Grits, create a powerful wave right through to election night. That evening is, of course, a long way away. Polls are, as Dief put it, for dogs. Opponents will do everything they possibly can to trip Trudeau up. Still, the Liberals are experiencing positive trends for the first time in almost a decade. They just may be able to turn the page — all the way back to 1957. ✚

*John Duffy, author of the widely acclaimed *Fights of Our Lives*, was a senior policy adviser to Paul Martin. He is a principal of Strategy Corp.*

# Enhanced US competitiveness requires a seamless North American market

**Robert A. Pastor**

*In this Council on Foreign Relations report on how to build a more seamless North American market, Robert Pastor argues the United States need not go further than its two closest neighbors, Canada and Mexico. Leaders of the three countries can build off of NAFTA by negotiating a common external tariff, eliminating restrictions on transportation and services, funding new continental infrastructure, and fostering a sense of community among North Americans.*

In looking abroad to promote economic growth, the United States need go no further than its two closest neighbors, Canada and Mexico. But the three governments have failed to pursue collaborative efforts to address a new generation of issues that were not anticipated by the 1994 North American Free Trade Agreement (NAFTA). Instead of tackling new transnational problems such as regulatory harmonization together, the United States and its neighbors reverted to old habits of bilateral, ad hoc negotiations. Instead of forging a unified competitiveness strategy toward the European Union and East Asia, each government has negotiated on its own. The three North American governments should create a seamless market, one in which it is as easy and cheap for a Chicago merchant to sell products in Monterrey as in San Francisco. This requires negotiating a common external tariff, eliminating restrictions on transportation and services, funding new continental infrastructure, and fostering a sense of community among the publics of the three countries that will also enhance the region's influence in negotiations with Asia and Europe. One estimate suggests that the benefits to the three countries would exceed \$400 billion.

## The case for a North American market

With rising competitive pressures from overseas and weak growth at home, the quickest external route to economic recovery and enhanced competitiveness is to stretch the US market to include 113 million Mexicans and 34 million Canadians. The Obama administration has made it a priority to complete the Trans-Pacific Partnership (TPP) with Asia and has announced its intention to launch a new US-European Union Transatlantic Trade and Investment Partnership. But the administration has neglected its two neighbors despite the fact that their combined product is more than six times that of other TPP countries and that US exports to them exceed those to the EU. Mexico and Canada are already the United States' two largest export markets, its two largest sources of energy imports, and in the case of Mexico, the largest source of immigrants. The three countries also make products together. Unlike US trade with most other countries, roughly 25 to 40 percent of the value of US imports from Canada and Mexico comes from components made in the United States, and then assembled into finished goods in one of the two countries. Closer integration would translate into a more efficient supply chain and improved competitiveness. With labor costs in China rising to those in Mexico, and the cost of transportation across the Pacific increasing, a North American supply chain is not only

more efficient than an Asian route, but it could also become a strong export platform to Asia. Moreover, if the United States seeks a unified approach to trade negotiations with Mexico and Canada, Asia and Europe will recognize that Washington has other options, and prospects for concluding transpacific and transatlantic trade deals would likely improve. For example, in the 1990s, world trade talks were stalemated until NAFTA was signed.

## Where NAFTA went astray

North America was on track to create a competitive market in the 1990s. The most rapid job expansion in recent US history occurred between 1993 and 2001. This coincided with the onset of NAFTA and the end of most trade and investment barriers between the United States, Canada, and Mexico. Trade tripled and foreign direct investment grew fivefold. But 2001 proved to be a turning point for North America just as the outlines of a continental market were becoming visible. Growth in trade has since declined by two-thirds and foreign investment by half.

There are multiple causes for the decline. China entered the World Trade Organization (WTO) and rapidly expanded its exports to all three countries in North America. Post-9/11 restrictions significantly raised the cost of moving products back and forth across North American borders. There has been little investment in common infrastructure, resulting in long wait times at borders and slower movement of commercial goods. But the main cause was simply the failure of leaders in the three countries to build on NAFTA's foundation and create a seamless market.

Deepening North American integration is more productive than widening it to add more free trade agreements (FTAs), but it will require the United States to address numerous domestic issues with its neighbors. Regulatory requirements should be meshed so as to eliminate trade protection while also ensuring safety and environmental concerns. National infrastructure grids—roads, railroads, electricity, and natural gas pipelines—should be built and connected. Repetitive and unnecessary border inspections should be eliminated. Labor market needs should be addressed on a continental basis.

## Toward a seamless North American market

To invigorate the three economies and forge a higher level of competitiveness, the North American governments should undertake the following measures:

Build public support for a shared vision. North American leaders should say clearly that economic progress depends on closer collaboration. The three leaders should speak often of the common North American vision and community and bring it to life with symbolic steps—such as a “Buy North American” ad campaign, instead of “Buy American.” There should be more educational exchanges and support for North American research centers.



Negotiate a common external tariff. This would permit products to cross North American borders without any customs forms, inspection, or duty. Current “rules of origin” requirements mandate that goods must contain a certain level of North American content to qualify for NAFTA tariff preferences, which slows commerce and costs consumers billions of dollars.

Review and eliminate all restrictions in transportation and services. The US government violated NAFTA for more than fifteen years by prohibiting Mexican trucks from entering the United States. Although the US government finally relented last year after WTO rulings, Mexican shippers are reluctant to upgrade their equipment without assurance that these barriers are gone for good. Other barriers include cabotage, which prevents trucks from depositing and acquiring cargo at different points on long journeys, and the Jones Act, which subsidizes American maritime transportation. In addition, while the exchange of services (e.g., banking, engineering, consulting, and health care) is increasingly important, professional certification and parochial regulations retard their growth. All these restrictions should be eliminated.

Forge a continental plan for transportation and infrastructure. Led by each country’s minister of transportation, the countries should build new trade corridors, improve railroads and ports, and construct a new highway that stretches from Canada to southern Mexico. Funding for the infrastructure could come from the common tariff, which should yield about \$45 billion annually. These funds would be managed by a North American Investment Fund, which could be administered by the World Bank with decision-making in the hands of the three governments.

Create a single North American working group on regulatory issues with a comprehensive strategy. Currently there are two separate bilateral

working groups—US-Canada and US-Mexico—that negotiate individual regulations, but they have failed to agree on a single one. A merged working group should aim for across-the-board regulatory convergence. This means that pharmaceuticals should be subject to uniform high standards and would not need to be retested in each country, that food imports should be tested just once by North American inspectors, and that regulations on the size, weight, and fuel efficiency of trucks should be the same in all three countries.

Adapt immigration policies to a wider labor market. The United States and Canada should permit their citizens to work freely in either country. This step is not possible with Mexico until the income gap narrows, but other steps should be taken. NAFTA visas for professionals should be easier to obtain and extend longer for Mexicans. An expanded guest-worker program for Mexicans should be included in comprehensive immigration reform, and to prevent abuse, biometric identification should be required for hiring all employees.

For the United States and Canada, negotiate a new energy framework. The framework should balance the region’s need for energy security with the necessity of curbing carbon emissions. The two countries should also develop ways to reduce the multiple-approval process for hydroelectricity transfers and negotiate a plan for future oil and natural gas pipelines. Mexico should be invited to participate but will probably wait until it completes domestic energy reforms.

Make antitrust policies continental. In a continental market, national efforts to break up corporate monopolies will be needlessly duplicative and, as in the case of the telecom monopoly in Mexico, ineffective. A concerted trilateral effort would strengthen the capacity of each government to keep North America competitive.

### The need for leadership

There is no better path to stimulate the US economy, increase US competitiveness, and bolster US influence in emerging markets in Asia and Europe than by deepening integration with Canada and Mexico. The three countries already trade more than \$1 trillion in goods and services each year. A small but vocal group in the United States opposes any further integration, but by and large the public supports freer trade in North America. Leadership is needed from President Barack Obama, the US business community, and border states and communities. Mexico’s new president has already expressed support for bolder initiatives to integrate the continent. Canada is more reluctant, but would not want to be left out if there was clear leadership from its neighbors. The place to start is the next North American Leaders Summit, which Mexico will host this year. The three leaders should articulate a clear vision and pledge to create a single continental market of mostly harmonized regulations in which nearly all products, produce, and services would transit borders without impediment. 🇺🇸

*Robert A. Pastor is professor and founding director of the Center for North American Studies at American University. He is the author of seventeen books, the most recent being *The North American Idea: A Vision of a Continental Future*.*

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# Is continental cooperation in energy and environment on the horizon?

*Joseph M. Dukert*

*Energy expert Joseph M. Dukert delivered these opening remarks at a January 2013 workshop on North American Energy Policies, organized by the University of Ottawa's Centre for International Policy Studies.*

You represent a broad swath of the people and organizations who shape Canadian energy policy. I can't presume to tell you what Canadian energy policy should be. So why am I here?

I've had the challenge three times of drafting the actual words of what people call the US "National Energy Policy." On two other occasions I've been editor-in-chief. My service has been under Presidents of both parties.

That may allow me to suggest what a national policy is — in either your country or mine. In our generally free-market, representative, federal nations the effective national policy is not a single document, issued by the central government — or even one part of that government.

*Allow me to suggest what a national policy is — in either your country or mine: In our generally free-market, representative, federal nations the effective national policy is not a single document, issued by the central government — or even one part of that government.*

Canada's provinces have more authority in respect to natural resources than do our states. But recognize that energy policy in California isn't the same as in Texas ... or in Maine or North Dakota. The private sector — from business and industry to think tanks and NGOs — is a heterogeneous but an undeniable factor. Our Congress and courts are major, often unpredictable players.

I've been asked to lead off with background like this for about 15 minutes, but this workshop can't succeed unless you all become involved. That pretty much rules out maps, tables and graphs, and

I'll generally even avoid numbers of any sort — although people who start to set down national policy need to know the up-to-date numbers and how they inter-relate.

Our Energy Information Administration is my own prime source. EIA is ordered by law to remain neutral and objective in respect to policy course. There can be differences between EIA and the Department of Energy's policy shop. There are often differences of interest and approach between DOE and other departments and federal agencies. Our Secretary of Energy is rarely the most powerful player at the executive level in implementing what becomes effective as US energy policy. That policy is (as I believe it is in Canada) a resultant.

A common view has been that national policy is primarily a direct balance of energy on one side and environmental protection on the other. That is too simplistic, although neither national energy policy nor environmental policy gets far without a sincere effort to communicate and coordinate.

I propose a different analogy for the complex, varying goals of energy policy — in Canada, the US, and in our often forgotten North American partner, Mexico. Instead of a two-way balance, visualize a dangling mobile. The mobile has numerous arms. Goals interlock, so each ultimately affects all the others... moving them, favorably or unfavorably.

Technology and geopolitics and economics (and the relative power and interests of policy-stakeholders) change. So energy policy is in constant motion. Paradoxically, that's required for stable results.

Five goals are the major motivating factors. Overemphasizing any one or two can make the mobile unstable — almost literally, bring it down. As I enumerate them, please just think about each one. What does it mean to you? ... to your country?

One major goal involves concern for the environment. The threat of climate change emphasizes that.

Next, we want to have enough energy to suit our geographic size and location, coupled with our economic, industrial and social structures.

Third, we want energy supply to be reliable. We don't like black-outs. We dread the possibility that much of the world's oil supply can be cut off by unfriendly countries.

Fourth is affordability. That's a function of short-term and long-term monetary costs in our getting what energy brings us. Heat. Transport. Industrial processes. And so on.

Most lists of major goals stop there. But don't overlook a fifth — time! Time to introduce new efficiencies, such as the important auto-fleet mileage standards adopted by both the US and Canada. Time to introduce new techniques for resource and reserve development. Time to develop pipelines and powerlines ... and now a "smart grid". A sensible national energy strategy needs a realistic underlying

timetable: short-term, medium-term, and long-term targets.

Our respective national energy goals are not and cannot be identical. This is just an approach. But it can apply to both our countries ... and to Mexico.

Here's another simple fact: into the indefinite future, these three countries of North America are interdependent in respect to both energy and the environment. We should have separately developed policies. But each should be devised with the perception that "North America" is a reality. No network of pipelines and powerlines and working electronic markets anywhere else matches the one we have. It has proved useful even though Canada has been a net exporter of energy and the US has for decades now been a net importer. It will be useful even if that situation changes. Almost any policy action that is good for North America overall is likely to be good for each partner.

*I propose a different analogy for the complex, varying goals of energy policy — in Canada, the US, and in our often forgotten North American partner, Mexico. Instead of a two-way balance, visualize a dangling mobile. The mobile has numerous arms. Goals interlock, so each ultimately affects all the others... moving them, favorably or unfavorably.*

Today, Barack Obama is being formally inaugurated for a second term. Let me turn now to a few personal opinions about what that means to this entire framework. And I'll add some observations about Mexico under its newly elected Congress and its President for the next six years — Enrique Pena Nieto.

Every 12 years, the US and Mexican presidential elections coincide. The last time was in 2000, and the result from an energy aspect then was that the "three amigos" met and endorsed a North American Energy Working Group. NAEWG achieved quite a bit at first, through consultations and joint publications.

Significantly, Mexico became somewhat less inward looking. But North American tri-lateralism in all fields suffered from the distractions brought about by the 9-11 terrorist attacks on New York and Washington. Without top-level interest it wilted. Still, consultations take place every few months among the staffs of energy regulators from all three. And bilateral efforts continued the continental partnership indirectly ... but, in my opinion, less optimally.

For a short time, the top three leaders tried a broader vehicle — the Security and Prosperity Partnership. SPP purported to push consultation and cooperation in many fields; and NAEWG was one of its most active constituents.

But SPP never lived up to original commitments: setting schedules for "milestones of accomplishments" that would be publicly monitored, consulting government and non-government stakeholders, maintaining transparency, and having oversight by cabinet-level of-

ficers. But SPP was attacked by wild charges that it infringed on sovereignty. One day, SPP's website simply announced that it no longer existed. And NAEWG had died quietly along the way.

The three leaders will meet again — probably this year, probably in Mexico. Will energy and environment be discussed? Of course! But before then, the Obama administration's decision on the Keystone XL pipeline will be made and announced. As a private individual, I can say openly that the postponement of its approval — which our State Department was poised to announce — reflected electoral campaign considerations. Many experts also share my opinion that the loudest opposition was not based on specific concerns about environmental protection along the route, but by a simple desire to end the use of fossil fuels.

The US election is over, but frankly I doubt that the final Keystone decision is as high a priority in the White House as our fiscal problems, gun control after the recent school massacre, or the Iranian threat of fresh nuclear weapons proliferation. Yet I am somewhat optimistic that approval will come.

*It's more significant that the President spoke repeatedly himself during the campaign about North American energy independence. He must know that this will require continued acknowledgement of interdependence.*

Still, there is always the real danger that it could be blocked again by an issue as irrelevant as arguments over Social Security. The President and Republicans remain constantly at odds, and the two parties today can't maintain discipline within themselves. So I understand President Obama's indications that his second term will involve the legitimate exercise of executive authority — that is, sans negotiations with Congress or interest groups — whenever and wherever possible. There may be hints of this in what he says today (if anything) about energy and the environment. We should study carefully his State of the Union message on February 14.

The appointment of a new Secretary of Energy, Secretary of Interior, and Administrator of EPA may or may not give reasonable clues. Those appointments could result from "balancing". It's more significant that the President spoke repeatedly himself during the campaign about North American energy independence. He must know that this will require continued acknowledgement of interdependence. And both Canada and Mexico, in my opinion, now hold more relative "soft power" — especially if they work together.

Greatly increased US production of both oil and natural gas has changed the policy balance somewhat from the President's standpoint as well as that of the US public. Adequacy of supply and affordability are both of a bit less concern — even with limited LNG exports. That gives more incentive for decision-makers to focus at-

ention on environmental concerns and reliability. As for time, I hope that the message will gradually get through. Delay in Keystone hurts us as well as you.

Despite Mexico's obvious problems I have faith that it will support a revived North American partnership in energy and environment at this time. President Pena Nieto has quickly rallied support and begun action in several non-energy areas that are also difficult and sensitive — such as insisting on education reform in defiance of the teachers' union ... promising movement within the first few months to introduce competition in business areas where monopolies have thrived.

Mexico needs both fiscal reform and energy reform, but it's too much to attempt both at once. Pemex has long been a cash cow and thus has been unable to invest in its own development. I expect Pena Nieto to address energy reform first (probably by spring) ... and he knows what it will take immediately thereafter to attack tax-collection problems that have made it necessary for Pemex to supply more than one-third of all federal revenue.

The new Mexican Foreign Secretary served as Energy Secretary in the previous administration, so I fully expect him to press the US Congress to ratify the agreement signed by our Secretary Clinton and his predecessor, Patricia Espinosa, on drilling for oil and gas along the watery border between our countries in the Gulf of Mexico. That would permit unitization of fields — a major breakthrough ... and possible precedent to cooperative activity in developing shale oil and gas on land.

Let me close by noting that the single most important game-changer in building continental cooperation in energy and environment could be the development of a valid "North American Outlook" document. It's amazing that this has never been done. It's a necessary preliminary to the most fruitful discussion of many subjects — not only including shale oil and shale gas, but also cellulosic ethanol, carbon capture and sequestration, and the limited — yet significant — role of renewable energy sources such as hydro, wind, and solar over the next 20 or 30 years.

The data are available, of course — including emissions of carbon dioxide; but reconciling definitions and units of measurement makes it a task of several months at least. To overcome various barriers, it might be an appropriate project for joint public-private development — perhaps with the North American region of the World Energy Council taking a hand. Projections of various scenarios could help guide planning in each country. And it could demonstrate a basic truth in North America: the whole is somewhat different — and probably more effective — than its constituent parts. ❖

*Joseph Dukert is a senior associate with the William E. Simon Chair in Political Economy at the Center for Strategic and International Studies in Washington DC. Dukert has been an International Energy Agency consultant, senior adviser to the North American Commission for Environmental Cooperation and has worked with various US government agencies on energy policies. Dukert served as president of the US Association for Energy Economics and is the author of Energy (Greenwood, 2008).*



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## STRAIGHT TALK WITH SCOTT NEWARK: PART I

# Immigration and national security

*This is the first instalment in a dedicated six-part series of the Macdonald-Laurier Institute's Straight Talk on the subject of immigration and national security with nationally-recognized expert Scott Newark. This instalment looks at the big questions involved in maintaining high levels of immigration.*

**MLI:** Most Canadians want our society to remain open to immigrants and the contributions they make. But are there questions we need to ask about very high levels of immigration and how we make sure the typical immigrant is able to assimilate into Canadian society instead of living in what amounts to foreign enclaves within Canada vulnerable to radicalization?

**Newark:** That is certainly something that the current Minister has spent a lot of time on. The ministry has just released several very detailed studies of which factors lead to more successful or less successful integration. It's a much more evidence-based approach than we had in the past which I think is a very good thing.

**MLI:** Empirically, are they finding that relatively successful or unsuccessful integration is connected to place of origin, socio-economic

*One reason why we really do get the stereotypical problem of engineers driving taxis is that, in Canada's federal system, much of the trade certification is done on a provincial level. So even if someone gets certified in, say, Quebec, if they move to Manitoba they have to start over again. One other weakness they identified was in the "economic" class of immigrant (the others being "family" class and refugees).*

status, or something else?

**Newark:** Actually one very major thing turns out to be how well they speak French or English. Another is whether skilled immigrants are able to get the kinds of jobs they're trained for. And one reason why we really do get the stereotypical problem of engineers driving taxis is that, in Canada's federal system, much of the trade certification is done on a provincial level. So even if someone gets certified in, say, Quebec, if they move to Manitoba they have

to start over again. One other weakness they identified was in the “economic” class of immigrant (the others being “family” class and refugees). They discovered that the bureaucracy was not particularly efficient either at matching skilled workers with trades or matching investors and entrepreneurs with business opportunities.

**MLI:** Is this a problem of not helping people find the right opportunities once they are approved as immigrants, or is the problem that we’re not good at selecting immigrants whose talents match up with our economic needs?

**Newark:** Mostly the latter. That’s why Minister Kenney is now directing his officials, for example, to involve local employers more in identifying and selecting specific immigrants for particular skilled trades that are short of workers. You’re also seeing that out west at the provincial level, with the Premier of Saskatchewan going off to Ireland to promote particular opportunities within his province. Other prairie provinces are developing similar initiatives as part of what are known as “provincial nominee programs”, where basically the provinces screen immigrants and move those with needed skills toward the front for processing by the federal government, which still makes the actual decision. Most provinces have been very successful at that. Ontario has been an unfortunate exception and is doing a very poor job. Getting this right isn’t just important for the Canadian economy, but for integration as well. People who come here for opportunity and find it are much more likely to integrate successfully into our society. I think we are headed in the right direction.

**MLI:** When tracking integration success or failure, do we also examine factors that lead certain kinds of immigrants to end up either in criminal activities or on social assistance?

**Newark:** To my understanding, no. We don’t even track how many non-citizens were convicted of criminal offences that could have resulted in deportation but were not deported and went on to commit more crime. That would be very useful information about how well the system is performing and what the consequences are when it fails. I recommended collecting this kind of data in an analysis of crime statistics that I wrote for the Macdonald-Laurier Institute in 2011 and it’s still a good idea. And when it comes to dependency, it’s also grounds for inadmissibility if you can’t support yourself so those are definitely relevant questions.

**MLI:** One of the things that could seriously undermine public support for a welcoming immigration policy, especially since 9/11, is some kind of immigrant involvement in terrorism. Other than screening individuals more carefully, are there any big picture things you think we should be doing differently to try to minimize that threat?

**Newark:** As you know, Section 34 of the Immigration and Refugee Protection Act says you’re not admissible as an immigrant if you’ve engaged in terrorism or pose a danger to the security of Canada. But the challenge we need to face when it comes to immigration and national security goes far beyond someone showing up with the equivalent of an Al-Qaeda membership card or a proven

history of association with that kind of group. We need to think hard about what I would call ‘Islamism’, the political Islam that has absolutely no interest whatsoever in integration; that is intolerant and unyielding and absolutely committed to eradicating Western values.

**MLI:** You’re talking about people who might not throw bombs, but who actively tell fellow immigrants not to become like Canadians because we are infidels?

**Newark:** I think it was Daniel Pipes who said these people hate us not because of what we have done but because of who we are. Sometimes, especially in Canada, we tend not to think of ourselves as having a culture. It is sort of that wonderful western or English arrogance that we have universal human values and that only other people have ‘different’ cultures. The truth is that we actually do have a culture and it’s based on concepts not found or admired everywhere like freedom of speech, individual liberty, rule of law, and gender equality. And we need to get our minds around the fact that there are people who are determined to see these societal concepts eradicated including from within after they’ve immigrated to Canada.

*Minister Kenney is now directing his officials, for example, to involve local employers more in identifying and selecting specific immigrants for particular skilled trades that are short of workers. You’re also seeing that out west at the provincial level, with the Premier of Saskatchewan going off to Ireland to promote particular opportunities within his province. Other prairie provinces are developing similar initiatives as part of what are known as “provincial nominee programs”, where basically the provinces screen immigrants and move those with needed skills toward the front for processing by the federal government, which still makes the actual decision. Most provinces have been very successful at that.*

**MLI:** So we’re talking about beliefs rather than actions that would make you inadmissible?

**Newark:** Yes although it’s more than simply a personal belief system. The concern with this group is not the physical actions of planting bombs or killing people; it is coming to Canada to tell people that homosexuals should be put to death and women are unequal and secular democracy and individual rule of law should be replaced by Sharia law. Those things, in my view, are threats to our basic security in the sense of maintaining the kind of society that we are and the kind of culture we have. I think we need to adjust to the changing aspect of security threat by revising the law both to deny entry and to revoke acquired citizenship for persons who are actively promoting the eradication of our culture even if it’s cloaked as ‘religion.’



**MLI:** I saw a news story where there were complaints about New York police having some mosques under some kind of surveillance. But then some New York Muslim leaders spoke up and said they should keep an eye on the strange stuff happening in some of those places. In that sense, would better surveillance of homegrown radicalism actually be a pro-immigration policy?

**Newark:** Absolutely. How many people, including those from Islamic countries, have come to the west and Canada in particular, to get away from theocratic, authoritarian rule and want no part of this? They want better lives for themselves and their families, especially the female members. There have been questions raised about Saudi funding of mosques and Islamic learning centres in Canada and what strings are attached to that funding. We want to respect freedom of religion, obviously, but you want to make sure something is not going on that is essentially subversive of our fundamental values. Among the clearest Western Muslim voices raised on this issue are Zuhdi Jasser in the United States and Tarek Fatah here in Canada. The bottom line is that tolerating intolerance in the name of toleration is potentially dangerous. These are not easy issues by any stretch of the imagination, but not having your head in the sand is a good place to start.

**MLI:** And there is a lot of sand out there. Are there things you think we should be changing in terms of international agreements and arrangements in order to stop the bad apples from spoiling the immigration barrel?



**Newark:** Yes. It is logical on a variety of fronts. As with the perimeter agreement with the US, it makes sense to try and confront a problem before it arrives at our border. It's important to do a better job through intelligence-led screening of exactly who it is that seeks to enter our country because, to be blunt, it is inordinately difficult to remove someone after they are here. That was one of the biggest lessons of the Sun Sea human smuggling incident. After it happened, the Canadian government set up a special division within the Privy Council Office to seek better co-operation and collaboration with the countries these people were coming from, including Thailand, Sri Lanka, and India, so source countries can stop organized criminal human smuggling before people get on ships and head to our shores. Canada and the US also recently announced an agreement against human trafficking, which matters because it so often

involves smuggling people across our mutual border. Two key points need to be made here. First, we need to use all our resources and that includes the Canada Border Services Agency. Second, intelligence-led enforcement is the key. We're in difficult financial times but cutting the intelligence capacity of groups like the RCMP and CBSA will undermine our entire effort so that's something to watch out for.

**MLI:** How about with other countries?

**Newark:** We need to do a better job of sharing defined information on both crime and terrorism with other international partners and to promote the use of international UN sanctioned refugee

centres for processing refugee claims abroad. Speaking of the UN, I think there's remarkable hypocrisy in our being unable to send people back to certain countries because we signed the United Nations Convention Against Torture, when those countries signed it too. We should be raising the issue of non-compliance with the convention at the UN and trying to make some of the rules more enforceable or have some consequences for countries who do not comply. We could also sign detailed agreements with specific countries to ensure we could return people who were convicted of crimes or had radical associations to each other's countries and make sure there would be no potential of mistreatment that prevented deportation.

Overall, improving screening and eliminating unnecessary backlogs would help increase public confidence in our immigration system. As I've said before, the key is 'intelligence-led enforcement', which is the cornerstone of the Canada-US Border Agreement and which works internationally as well.

**MLI:** Are there any other big picture things that we ought to do in order to ensure we do not have someone kick the welcome mat aside?

**Newark:** In my experience, the biggest obstacle is an institutional issue that goes far beyond just the immigration system. Government, both political and bureaucratic, frequently has a hard time admitting that everything they do isn't perfect. Bureaucracy in particular tends to regard bad news as something that needs to be suppressed for the good of the organization which is really counter-productive. We're dealing with human systems that cannot guarantee perfection and that's just reality. If someone gets through the screening process that shouldn't have, or is continuing to commit crimes despite being deportable, then an essential part of the system's integrity and performance is its capacity to recognize a defect and then take action to fix it. Ignoring flaws is the best way to ensure they are repeated. Fortunately, Immigration Minister Kenney and his officials appear to have embraced this need for candour and evidence-based reforms appear to be on the immediate horizon. The reforms proposed in C-31, for example, regarding biometric screening and streamlined processing and adjudication in defined circumstances are based on practical experience and a stated determination to improve system performance.

**MLI:** So frank discussion is a good thing?

**Newark:** Yes, and that's also why it's encouraging that about a year ago the government started public consultations on what people

think about immigration and who should be coming to the country. The better people integrate into this country, obviously, the better it is not only for them, but for us as well.

We are clearly confronted with different kinds of security challenges than in the past and we'll never completely eliminate security and criminal issues with new Canadians any more than we can with people born here. Having said that, dealing with things on an open and honest basis is the best way to ensure both integrity and security when it comes to immigration to Canada.

*We need to do a better job of sharing defined information on both crime and terrorism with other international partners and to promote the use of international UN sanctioned refugee centres for processing refugee claims abroad ... there's remarkable hypocrisy in our being unable to send people back to certain countries because we signed the UN Convention Against Torture, when those countries signed it too. We should be raising the issue of non-compliance with the convention at the UN and trying to make some of the rules more enforceable.*

## Recommendations

- Enhance tracking and reporting of information, both positive and negative, relevant to immigration systemic performance for the purposes of supporting informed policy development.
- Amend the Immigration and Refugee Protection Act and the Citizenship Act to create a ground of inadmissibility and acquired citizenship revocation for persons advocating or promoting the following: cultural, religious, or racial intolerance; gender inequality; or the elimination of any secular democracy, individual liberty, or the rule of secular law for persons within Canada.
- Continue to promote an international intelligence-led border and immigration security strategy, including ensuring the domestic allocation of sufficient resources for that purpose. 🇩🇪

*Scott Newark's 30-year criminal justice career began as an Alberta Crown Prosecutor, with subsequent roles as Executive Officer of the Canadian Police Association, Vice Chair and Special Counsel for the Ontario Office for Victims of Crime, and as a security and policy advisor to both the Ontario and federal Ministers of Public Safety.*

## *MLI Straight Talk on Immigration and National Security*

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STRAIGHT TALK WITH SCOTT NEWARK: PART II

# Immigration and national security

*This is the second installment in a dedicated six-part series of the Macdonald-Laurier Institute's Straight Talk on the subject of immigration and national security with nationally-recognized expert Scott Newark. This installment examines a number of broad issues affecting Canadian immigration such as our screening and removal processes, as well as assessing the security risks arising for Canada from our immigration policies and laws.*

**MLI:** Most Canadians want to maintain an open and welcoming immigration system, but keep out the criminals and security threats. So what are the big picture weaknesses in our immigration laws?

**Newark:** People need to appreciate that the immigration system is not just about screening people before letting them into the country. It also has to be effective in removing people, either because we discover they lied to get in or because they committed a serious crime once here. And it's also important that the system contribute to immigrants generally integrating into Canadian society, especially given the changed nature of security threats in the last 25 years.

**MLI:** The first step in this process, screening people, means we want

to keep criminals out. Is that correct or is there a broader context for screening applicants?

**Newark:** We obviously try to keep serious or career criminals out. We also try to reject people on a broader ground called "security inadmissibility". This refers to not just actual terrorism or fundraising for political violence, but also a pattern of associations with menacing people or groups. It's especially important for both criminals and security threats to get it right before the person sets foot in the country because current legislation makes it extremely difficult to remove them once they're here.

**MLI:** Before moving to the issue of removing criminals and security threats once they're in Canada, perhaps you could expand on the idea of aiding immigrants in their integration into Canadian society, which is a contentious issue.

**Newark:** In the west, including Canada, we have a distinct culture of secular democracy, rule of law, individual liberty, gender equality, and toleration and not everybody agrees with that. We need to make sure people don't come here intending to undermine those basic prin-

ciples. We also want to make sure people don't import foreign quarrels into Canada. We understand that we have people coming from countries they have good reason to get away from, for example Tamils fleeing Sri Lanka, but we want to make sure they are not coming here to set up a base to continue the battle back home. Or take Somalia. There is probably no country with as long a history of, to put it mildly, difficult circumstances. But while helping people get away from there, we want to screen out those coming here to raise money for al Shabaab or recruit people to go back to Somalia and fight.

**MLI:** You talked about whether we have a culture then mentioned al Shabaab. And there was recently an attack in Mogadishu by a Somali-American who left a message telling fellow North American Muslims not to "just sit around and be a couch potato and just chill all day". So that is what he thinks our culture is and clearly it rubbed him the wrong way.

**Newark:** That is the fundamental challenge in relation to Islamism. Their complaint is not necessarily something we have specifically done. It is who we are and it is very aggressive intolerance and there are repeated examples where recruiters targeted not just immigrants but second or third generation people here. Likewise, there are people who set up a mosque in a Toronto school and told the children that the boys sit at the front and the girls sit at the back and you are not allowed in the room if you are menstruating. If somebody in a screening interview is asked about replacing secular rule of law by imposing Shariah law in Canada and they say they want it, we need to say, 'I am sorry, that is inconsistent with Canadian cultural values and you are not welcome in Canada.'

**MLI:** I presume the traditional focus of immigration screening was to watch for criminals, including checking with the authorities in the country they were coming from?

**Newark:** Correct. And it has expanded now into security. Let me repeat how important it is to get it right at the front end. Look at the thousands of people who have come here and then committed crimes that, under law, make them ineligible to stay and see how many are here still years later because of how our laws are drafted, especially the repetitive appeal processes. Frankly, the best way for somebody ordered removed from Canada for a crime to get to stay is commit a new crime because we will take you through the entire process all over again before we remove you. Fortunately, the Government has started to make reforms which are designed to improve screening and expedite removals for people who commit serious crimes after they've arrived.

**MLI:** With that many cases, we must not be doing that good a job on initial screening even of criminals.

**Newark:** The example I often use is a guy named Edmund Ezemo who was busted a few years ago for high-end vehicle theft, fraud, and shipping stolen vehicles out of the country, and the Toronto media reported that he was a non-citizen who had been deported from Canada for basically the same offences eight previous times. Think of the millions of dollars we have spent investigating and prosecuting him. And when Canada Border Services Agency (CBSA) was questioned about how he kept coming back, in follow-up stories, they just said it was very difficult to deal with him because he had 'good' documents. That

is not a satisfactory answer. Ezemo is by no means an isolated example. The bottom line is we can prevent abuses like this through deploying technologies like face recognition biometrics, and it is past time we did so. Full disclosure: I help a number of security technology companies which is part of how I'm aware of the potential technological solutions to some of these issues.

This is also an area where Citizenship and Immigration Minister Jason Kenney has championed improvements to our system such as in C-31 which expressly authorizes the taking of biometrics in defined applications. There's more to do but we finally appear to be headed in the right direction.

Look at those cases where the CBSA was finally forced to release identities of wanted criminal inadmissible, and how many have long records of crimes in Canada which the law theoretically says should have got them removed long ago. Anybody wonder why they're still here and how they were released on bail? Deporting such people is also a form of crime prevention because it keeps them off the street where they may commit very serious crimes. The case in this area I originally got involved in was in the early 90s with a guy named Clinton Gayle who was a drug dealer with several convictions that should have been removed but wasn't. Ultimately he was released because it was taking so long to remove him and he went back to drug dealing and thereafter shot and killed a young Toronto constable named Todd Baylis. Fifteen years later this thug is still sitting in a Canadian jail because under the International Transfer of Offenders Act, he has to consent to be removed to his home country of Jamaica. Guess what — not many foreign criminals consent because they'd rather stay in Canada, even in jail, than return to their home country. We've even got cases of non-citizen criminals serving sentences in Canadian jails and committing new crimes while in jail which means they'll be here even longer. Clearly, we need to change the law to remove the requirement of offender consent to transfer.

**MLI:** In the last 10 or 20 years the security threat has changed, from people like the IRA coming here to raise money for activities back in the United Kingdom, to people coming here not just to raise money and recruit for terrorism elsewhere but to recruit people to attack Canadian targets. Where are we roughly in screening out that kind of threat?

**Newark:** Obviously better than what we used to be, but cases like Abdulmatallab, the 2010 underwear bomber on the plane to Detroit, demonstrate we have a long way to go. In 2005, I was part of a review done for the Border Officers Union on border security which included assessing the effectiveness of the 'bad guy' lookout information provided to front line officers. I had just come from working in Washington DC with the Investigative Project on Terrorism and I was aware that there were five people with a Canadian connection on the FBI's most wanted Terrorist Watchlist including one reported as travelling on a Canadian passport. I checked how many were on the CBSA watchlist for security — zero. The C-31 biometric screening and the Minister's comments suggest that we are about to get that biometric bad guy database to match against who we screen but it can't come soon enough. My understanding, as well, is that CBSA is itself taking steps to modernize its lookout system which is definitely encouraging.

Security is more difficult than criminality because we need to identify

connections of interest globally, which means we have to do a better job of sharing information with other countries so we understand who the guy really is before he gets on the plane. This is made more difficult because of increasingly sophisticated phoney documents and false I.D. Hence the need for face recognition biometric screening at both points of departure and ports of entry.

I think the security perimeter agreement with the United States is the beginning of a far more thorough job of cooperating with the Americans...and others... to identify exactly who we are looking for. Having now seen the details, I'm optimistic we're heading in the right direction.

**MLI:** In general terms, if someone is admitted to Canada and commits a crime here, what does the law say is meant to happen to them?

**Newark:** They are deemed to be inadmissible. There are some nuances in the Immigration and Refugee Protection Act, depending on the nature of the crime measured either by sentence actually imposed or number of offences that are committed but generally speaking, somebody is rendered inadmissible, and I quote Section 36 (1a), "Having been convicted in Canada of an offence under an Act of Parliament punishable by a maximum term of imprisonment of at least 10 years." And remember that our system has very broad maximums so for instance, if someone was convicted of a break and enter that section would apply. Then, we also have a lesser ground just called criminality, which is Section 36 (2a): "Having been convicted in Canada of an offence under an Act of Parliament punishable by way of indictment." Now that means virtually anything. The issue is not so much the legal criteria as what we actually do about people who render themselves inadmissible; that is the real problem.

**MLI:** If somebody were to shoplift a pair of socks might they in principle become ineligible?

**Newark:** in theory but there are, appropriately, pre-determined legislative presumptions against an inadmissibility finding in single, less serious cases. And while I think most people would be okay with officials using their discretion to not remove a one-time shoplifter, that would probably change if the person kept committing crimes including more serious crimes.

**MLI:** Then what is meant to happen if somebody does this? And what really happens?

**Newark:** Theoretically, what happens is an officer — it used to be any peace officer but the Immigration and Refugee Protection Act narrowed it to only designated federal immigration or border service officers — issues an 'inadmissibility report'. You would think that would be automatic based on convictions, but it isn't. Somebody has to notice that someone has been convicted. They then write a report that goes up to the bureaucracy of the Ministry and the Minister then makes a decision. More exactly, he or she can make a decision; they don't have to. It can be sent to another administrative process, the Immigration and Refugee Board, for processing to determine whether the person should be removed. If they say yes it triggers a further slow process with appeals from individual decisions, grounds of appeal on humanitarian and compassionate grounds and grounds for appeals if somebody claims that

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they are at risk of torture, if they are sent back to their country. And each of these has separate internal appeal mechanisms. It is this repetitive duplicative process that makes it very difficult and time consuming to remove people. The Government has now introduced C-43 which will, in effect, lower the standard from a custodial sentence of two years or more to six months or more to trigger an exemption from one of the appeal processes. It's a start.

**MLI:** In principle should there be a presumption that they are going to be removed unless they are successful in an appeal? If the Immigration and Refugee Board gets hold of the case why don't they just say they should get out now?

**Newark:** Because their lawyers can and do say they that have built a life here with their family and really he's not a bad guy and they just made one (or more) mistake and then ask for another chance. And the IRB has to ponder the claim and make a ruling, which can be appealed, which causes delay and a chance to argue again that things have changed all of which combine to explain why it often takes years for a supposedly final decision.

One point Immigration Minister Kenney has been making effectively is that even if you get away from the administrative procedure and get into the legal appeals, courts are not supposed to be substituting their judgment for lower boards or Ministers about whether humanitarian grounds should apply. They are just supposed to be looking at and asking did the body do its job by considering the evidence that was before it. Minister Kenney made that point in a speech at Western Ontario Law School about a year ago and got attacked for challenging the judiciary. I think we could even raise the bar on what creates a presumption of removal provided we streamlined the process of considerations, appeals and so on, because one of the basic truths of public policy and law enforcement is that clarity and certainty promote accountability.

**MLI:** How aggressive do we need to be about making sure immigrants don't create a cultural climate that radicalizes people after they get here, and how far are we from where we ought to be on this?

**Newark:** I'm not sure aggressive is the right term but I think we need to realize that the basic principles of our society need to be asserted and protected including when it comes to immigration policy and practices. Unfortunately, I think we are very far from where we need to be.

Take the Omar Khadr case. People are largely focusing on whether he should be allowed to come back to Canada. Frankly, that's not the real issue because he was born here and is a Canadian citizen. That's the case because his parents made the deliberate choice to have him and his siblings born here. This practice is known as creating 'anchor babies' because it creates an extra link to the parents' adopted country, which is what his parents wanted. Canadian authorities were aware of what his parents were up to before 9/11 and Prime Minister Chrétien even visited the Pakistani Prime Minister to help get Mr. Khadr Sr. out of jail in the 1990s. We knew or certainly should have known that these kids were being raised in this jihadi cult atmosphere, so where were the armies of social workers to move in and take them away so as to protect them as Canadian kids from their parents? That same issue comes to mind with the so called Shafia 'honour killings' in Kingston where it is clear that the murdered daughters had repeatedly tried to tell authorities in Canada that they were at risk but got no useful protection from public authorities. Surely as Canadians...these kids deserved better.

**MLI:** What about schools banning Halloween costumes partly because of cultures that do not celebrate Halloween, which might be code for "Muslims," saying we will change our ways so you don't have to change yours?

**Newark:** I think it is really silly for us to be doing things like that, but that is not necessarily a security issue. What concerns me more

are public authorities tolerating prayer services inside public schools where boys sit at the front and girls sit at the back. Those kids are in Canada and that kind of promotion of gender inequality is not something we should be allowing to happen just because it's being done in the name of 'religion'. The message sent is as unacceptable for the boys as it is for the girls. By the way, this is probably an example where the population is well ahead of its political leadership.

### Recommendations

- Improve screening including through biometrics to better identify people seeking entry to Canada with false documents.
- Take legislative and policy actions to expedite the removal of non-citizens who commit defined crimes once in Canada or who have lied to gain admission.
- Prioritize immigrant integration into Canadian culture and proactively target for removal or citizenship revocation and removal those who seek to radicalize others into actions harmful to Canadian security and inconsistent with Canadian values. 🇨🇦

*Scott Newark's 30-year criminal justice career began as an Alberta Crown Prosecutor, with subsequent roles as Executive Officer of the Canadian Police Association, Vice Chair and Special Counsel for the Ontario Office for Victims of Crime, and as a security and policy advisor to both the Ontario and federal Ministers of Public Safety.*

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*9:30 pm After Dinner Salon*

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